Debtors' Ex. 36

INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/198

THE BAHAMAS

July 2019

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with The Bahamas, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 3, 2019 consideration of the staff report on issues related to the Article IV consultation with The Bahamas.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 3, 2019, following discussions that ended on April 12, 2019, with the officials of The Bahamas on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 16, 2019.
- An **Informational Annex** prepared by the IMF staff.

The document listed below has been or will be separately released.

FSAP Non-bundle (that will be released by MCM)

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INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

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July 1, 2019

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IMF Executive Board Concludes 2019 Article IV Consultation with The Bahamas

On June 3, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with The Bahamas.[1] The discussion included the Financial System Stability Assessment (FSSA) of The Bahamas.

Real GDP expanded by 1.6 percent in 2018, up from 0.1 percent in 2017. Economic activity was supported by tourism, while foreign investment projects continued to provide the impetus for construction sector activity. The consumer price index (CPI) increased by 2.2 percent on average in 2018 due mainly to the Value Added Tax (VAT) rate increase from 7.5 to 12 percent in July 2018. Unemployment remains high, at 10.7 percent in November 2018, as employment creation has lagged labor force growth. The current account deficit widened to 16.4 percent of GDP in 2018, reflecting higher oil prices and imports associated with the conclusion of a large FDI project. The budget deficit narrowed to 3.4 percent of GDP in FY2017/18, down from 5.5 percent a year earlier. Central government debt increased to 63.3 percent of GDP in FY2017/18 from 54.4 percent in FY2016/17.

The banking system is well capitalized, but credit to the private sector continued to contract in 2018, even if at a more moderate rate. Banks have improved their balance sheet quality and average non-performing loans (NPLs) declined from its peak of 15.4 percent in 2013 to 9.1 percent in 2018. The financial system is resilient to current stability threats.

Growth is projected to reach 1.8 percent in 2019 before converging to its potential of 1½ percent in the medium term. The increase in inflation is projected to have been temporary. Domestic bottlenecks and lagging economic diversification constrain medium-term growth, and unemployment is projected to decline only gradually. External accounts are expected to strengthen over the medium-term, backed by high tourism receipts, fiscal consolidation and lower oil prices, and the current account deficit is projected to converge to 5 percent of GDP.

Risks to global growth, particularly in key trading partners, have increased. Slowing external demand or a tightening of financial conditions in key advanced economies could adversely affect

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

growth prospects. Vulnerability to hurricanes and climate change remains high. Domestically, reform momentum could stall delaying fiscal consolidation and the implementation of competitiveness-enhancing reforms. In the international sector, reputational risks could intensify despite the recent strengthening of regulatory and transparency standards, possibly challenging existing business models.

Executive Board Assessment[2]

Executive Directors welcomed the strengthening economic activity and the prospect of continued growth, underpinned by prudent policies and comprehensive structural reforms. At the same time, Directors noted the still high unemployment rate, rising public debt, and risks associated with external imbalances. They underscored the need to rebuild policy buffers, safeguard financial stability, and further enhance resilience to natural disasters.

Directors welcomed the decisive steps to consolidate the fiscal position and the authorities' commitment to fiscal sustainability and macro-financial stability. They particularly welcomed the enactment of the Fiscal Responsibility Law, noting that its effective implementation would bolster policy credibility and ensure durable gains from fiscal consolidation. Directors encouraged steps to further strengthen public financial management systems, tighten expenditure control, and operationalize the fiscal council as planned. They also saw value in a comprehensive review of the tax regime to enhance its efficiency and progressivity, including by reducing distortions and other preferential treatment.

Directors stressed the importance of advancing structural reforms to boost competitiveness and unlock the economy's potential for high and inclusive growth. In view of the planned accession to the WTO, they recommended prioritizing reforms that tackle high energy costs, improve access to credit, and address skill mismatches in the labor market. Lowering the cost of doing business would help attract needed foreign direct investment.

Directors noted that significant progress has been made in implementing the 2013 FSAP recommendations, and that the overall banking system remains resilient. They encouraged further efforts to revive credit growth, resolve nonperforming loans, and strengthen supervision of credit underwriting. To this end, they supported developing a real estate price index and operationalizing the credit bureau. Directors welcomed ongoing efforts to strengthen the central bank's recovery and resolution powers, as well as its governance and independence. They highlighted the need to complete the legislative reform of the banking resolution framework, improve governance of public asset management companies and state-controlled financial institutions, and address remaining deficiencies in the AML/CFT framework.

Directors looked forward to the swift implementation of the new framework for the international sector aimed at enhancing its transparency and monitoring. They encouraged the authorities to remain vigilant against potential spillovers into the domestic financial system from the

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[2] At the conclusion of the discussion, the Deputy Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

unification of banking license regimes. Directors also welcomed the authorities' initiatives to advance financial inclusion while emphasizing the need to proceed with caution on the issuance of a central bank digital currency, mindful of possible risks to financial stability.

Directors welcomed the recent subscription to the enhanced General Data Dissemination System. They looked forward to further progress in improving the availability and quality of economic data.

The Bahamas: Selected Social and Economic Indicators

I. Social Indicators

GDP (US$ millions), 2018	12,425	Poverty rate (percent), 2013	12.8
GDP per capita (US$), 2018	32,997	Unemployment rate (percent), Nov 2018	10.7
Population (thousands), 2018	377	Infant mortality rate (per 1,000 live births), 2016	9
Life expectancy at birth (years), 2018	75.7	Human development index (rank), 2018	54
Adult literacy rate, 15 & up (percent), 2007	95.6		

II. Economic Indicators

					Proj.	
	2015	2016	2017	2018	2019	2020
	(Annual percentage change, unless otherwise indicated)					
Real sector						
Real GDP	0.6	0.4	0.1	1.6	1.8	1.7
Nominal GDP	7.7	1.6	1.8	2.3	2.4	3.6
Consumer price index (annual average)	1.9	-0.3	1.6	2.2	1.6	2.4
Consumer price index (end of period)	2.0	0.8	1.8	2.0	2.4	2.4
Unemployment rate (in percent)	13.4	12.2	10.1	10.7	9.0	9.0
Saving rate (percent of GDP)	14.1	20.5	13.4	7.5	10.9	12.5
Investment rate (percent of GDP)	26.2	26.4	26.3	23.9	23.0	22.9
Financial sector						
Credit to the nonfinancial public sector	7.7	12.3	-3.8	6.6	5.3	2.5
Credit to the private sector	-1.1	-2.0	-3.0	-1.5	1.0	1.5
Liabilities to the private sector	-0.3	8.7	1.5	-0.8	2.4	3.6
External sector						
Exports of goods and services	-8.7	18.9	-1.4	11.8	8.2	6.4
Of which: Travel receipts (gross)	3.0	29.3	-2.6	12.0	8.5	5.5
Imports of goods and services	-16.0	5.6	11.5	11.5	2.0	2.2
	(In percent of GDP, unless otherwise indicated)					
Central government 1/						
Revenue and grants	15.0	16.3	17.2	16.6	19.4	19.7
Expenditure	18.8	18.9	22.7	20.0	21.7	21.1
Expense	16.3	17.3	19.4	17.7	19.6	19.0
Net acquisition of nonfinancial assets	2.4	1.6	3.3	2.3	2.1	2.2
Overall balance	-3.8	-2.6	-5.5	-3.4	-2.3	-1.5
Primary balance	-1.7	-0.3	-3.3	-0.8	0.4	1.1
Central government debt	49.7	50.4	54.4	63.3	63.1	61.9
External sector						
Current account balance	-12.0	-6.0	-12.9	-16.4	-12.2	-10.3
Change in net international reserves (increase -)	-0.2	-0.8	-4.2	1.8	-0.4	-0.2
External public debt (end of period) 2/	18.5	19.9	26.6	25.5	27.9	27.6
Memorandum items:						
Gross international reserves						
(End of period; millions of U.S. dollars)	812	904	1,417	1,196	1,250	1,275
In months of next year's G&S imports	2.2	2.2	3.1	2.5	2.6	2.6
In months of next year's non-FDI related G&S imports	2.5	2.5	3.4	2.9	2.9	2.9
In percent of reserve money	83	70	98	96	97	96
External debt-service ratio (in percent of exports of G&S)	5.7	9.7	20.5	9.1	19.5	8.9
GDP (in millions of Bahamian dollars)	11,752	11,938	12,150	12,425	12,724	13,178

Sources: Central Bank of The Bahamas; Department of Statistics; Ministry of Finance; UNDP Human Development Report; and IMF staff projections.

1/ The data refer to fiscal years ending on June 30.

2/ Central government and public corporate debt.

INTERNATIONAL MONETARY FUND

THE BAHAMAS

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

May 16, 2019

Context: Growth has returned after years of stagnation. The reform-oriented government is tackling structural issues, with notable achievements in the fiscal area. The financial sector is sound and resilient to current stability threats, but credit remains scarce. The offshore sector faces heightened international scrutiny and the government is taking steps to strengthen compliance with AML/CFT and tax transparency standards.

Outlook and Risks: Tourism and related foreign investments will support growth in the near-term, while low competitiveness and diversification dampen medium-term prospects. Growth would suffer from a slowdown in the U.S. or higher oil prices, and hurricane vulnerability persists. Reform momentum could stall, undermining fiscal consolidation efforts.

Key Policy Recommendations:

- **Fiscal Policy**. Effectively implement the new Fiscal Responsibility Law (FRL) and adopt measures to deliver on the fiscal targets to ensure debt sustainability. Review tax expenditures and consider a more comprehensive tax reform.
- **FX and Monetary Policy**. Reduce the central bank's government debt holdings and strengthen its governance framework to boost the credibility of the exchange rate peg, complementing much needed competitiveness reforms.
- **Central Bank Digital Currency (CBDC)**. Prepare for risks associated with the introduction of the pilot CBDC.
- **Offshore Sector**. Strengthen the AML/CFT and tax transparency frameworks to reduce reputational risks and mitigate possible correspondent banking relationship (CBR) pressures. Develop a medium-term strategy for the offshore sector to uphold its contributions to the economy.
- **Financial Sector Policies** (FSAP). Increase resources to enable enhanced banking supervision of credit risks, strengthen the banking resolution framework and improve governance of asset management companies, and move expeditiously to operationalize the credit bureau.

Approved By
Aasim M. Husain (WHD) and Edward R. Gemayel (SPR)

Discussions took place in Nassau during April 1–12, 2019. The team comprised Fabian Bornhorst (head), Serhan Cevik, and Atsushi Oshima (all WHD), and Rina Bhattacharya (FIN). Marcio Ronci and Tianle Zhu (WHD) contributed from headquarters. Charles Cohen (MCM) and Garima Vasishtha (OED) participated in the concluding meetings. The mission met with Prime Minister Minnis, Deputy Prime Minister and Minister of Finance Turnquest, Central Bank Governor Rolle, other Ministers and senior government officials, and private sector and civil society representatives.

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CONTEXT

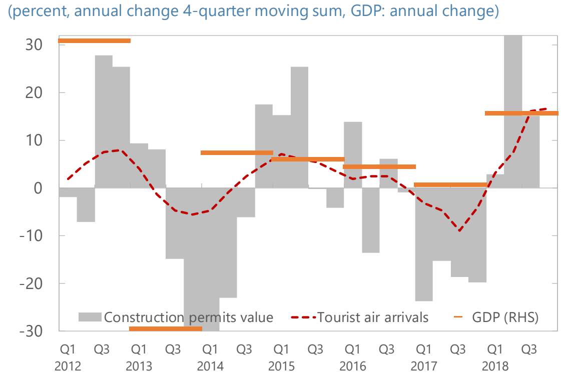
1. **Growth is firming up as reforms are being implemented.** After a period of economic stagnation, activity gained momentum from added tourism capacity and a strong U.S. economy. Supported by a commanding majority in parliament since the May 2017 election, Prime Minister Minnis' government has advanced reforms to tackle fiscal and structural challenges, with a commitment to improving transparency and accountability. A new Fiscal Responsibility Law (FRL) was enacted, a natural disaster relief fund is being set up, and fiscal consolidation is underway. In the financial sector, banks are strong, but credit remains scarce and problem assets continue to pose a challenge. A new regulatory and fiscal framework is being introduced for the offshore sector, with implications for the domestic economy. Reform fatigue could set in as unemployment remains high and the cost of fiscal measures is being felt, but it is critical to see through the reform process, while prioritizing more inclusive growth. Strengthening resilience against natural disasters and boosting competitiveness is important to guard against risks and improve medium-term growth prospects.

RECENT DEVELOPMENTS

2. **Real GDP expanded by 1.6 percent in 2018, up from 0.1 percent in 2017.** Economic activity has been supported by strong tourism arrivals, while foreign investment projects continued to provide the impetus for construction sector activity. Air tourist arrivals increased by 16 percent during 2018, and tourism revenue per room is up by 30 percent, reflecting an increase in high-end room capacity. Tourism growth was broad-based and supported by new, direct flight routes to smaller islands as well as the completion of the Baha Mar resort in New Providence. Listings for vacation rentals are also registering growth rates above 20 percent, with occupancy rates trending above 40 percent.

Economic activity is recovering on the back of strong tourist arrivals and construction activity.

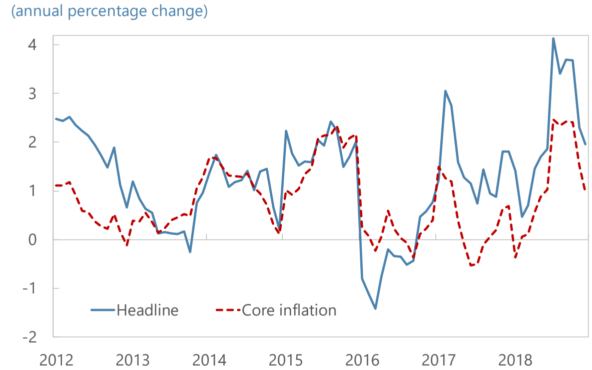
Construction, Tourism, and GDP
(percent, annual change 4-quarter moving sum, GDP: annual change)



Sources: CBOB, and IMF staff estimates.

Despite the VAT hike and higher fuel prices, core inflation remains contained.

Consumer Price Index
(annual percentage change)

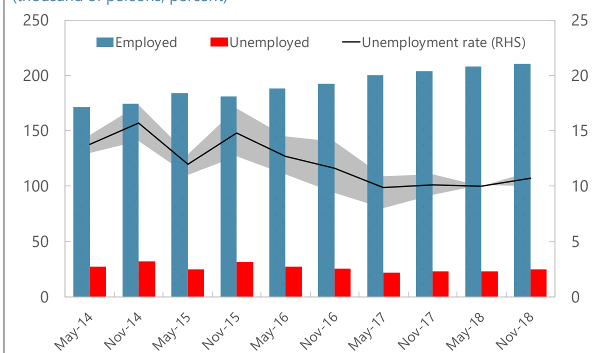


Sources: Department of Statistics, and IMF staff calculations.

3. Inflation increased following tax hikes and a period of volatile energy prices. Consistent with the inflationary effects observed following the introduction of the value added tax (VAT) in 2015,[1] the consumer price index (CPI) increased by 2.2 percent on average in 2018 due mainly to the VAT rate increase from 7.5 to 12 percent in July 2018. While fluctuations in energy prices were a source of volatility, core inflation remained contained.

4. Unemployment remains high, especially among the youth, as employment creation has lagged labor force growth. Labor force participation has increased by a strong 8.7 percentage points since 2014 to 83.1 percent of the working-age population in November 2018. As a result, the increase in employment—some 4.7 percent per year since 2014 —, was insufficient to reduce the unemployment rate, which stood at 10.7 percent in November 2018, up from 10 percent a year earlier. Moreover, unemployment among the youth (aged 15–24) is higher—24.1 percent for women and 22.4 percent for men.

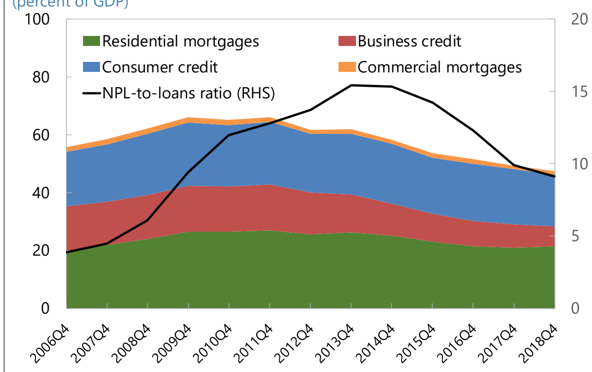
Labor Market Indicators
(thousand of persons, percent)



Note: Shaded area denotes difference between the lower male and higher female unemployment.
Source: Labor Force Survey, November 2018.

5. The fiscal deficit has narrowed, but public debt continues to increase. The budget deficit narrowed to 3.4 percent of GDP in FY2017/18, down from 5.5 percent a year earlier as capital expenditure levels normalized after hurricane reconstruction efforts and current expenditure was tightened. A tax increase implemented with the FY2018/19 budget is projected to reduce the deficit further to 2.3 percent of GDP. Central government debt increased to 63.3 percent of GDP in FY2017/18 from 54.4 percent in FY2016/17, partly reflecting recognition of payment arrears.

Credit to the Private Sector
(percent of GDP)



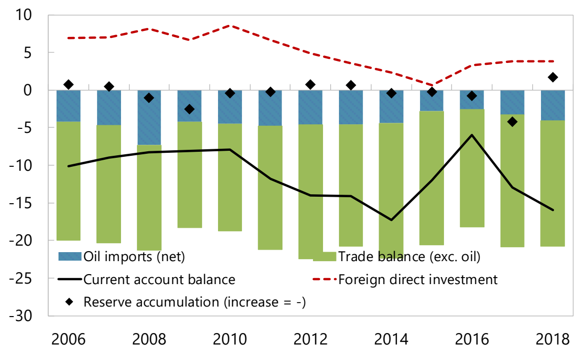
Sources: CBOB and IMF staff estimates.

6. Private sector credit remains weak, despite ample liquidity. The banking system is well capitalized, yet credit to the private sector continued to contract in 2018, even if at a declining rate. As a result, the credit-to-GDP ratio fell to 47.3 percent. Banks have improved their balance sheet quality and average non-performing loans (NPLs) declined from its peak of 15.4 percent in 2013 to 9.1 percent in 2018. Systemic liquidity remains high but moderated in 2018 as commercial banks increased lending to the government.

[1] See IMF Country Report No. 16/224, Box 1.

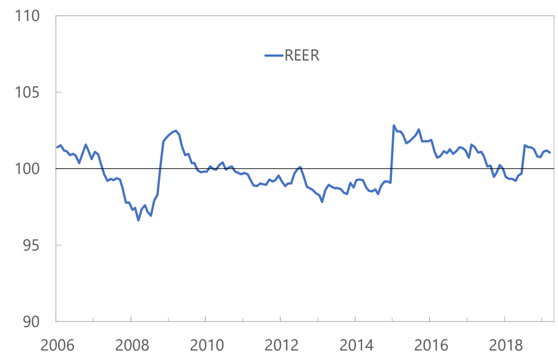
7. **The external sector position is weaker than suggested by fundamentals and desirable policies**. Despite the tourism boom, the current account deficit widened to 16.4 percent of GDP in 2018, reflecting high imports associated with higher oil prices, the opening of the Baha Mar resort, and higher interest and dividend payments abroad by the private sector. The 2018 cyclically-adjusted current account deficit—correcting for FDI-related imports—is estimated to be 5.2 percentage points of GDP above the level consistent with fundamentals and desirable policy settings (Annex II), while the I-REER model points to an overvaluation of around 8 percent. Reserves declined in 2018 by US$222 million, reflecting a higher oil import bill and the refinancing by a public sector entity of foreign currency with local currency debt. For 2018, staff assess the REER as overvalued by 10 to 20 percent.

Currenc Account, FDI, and Reserve Accumulation
(percent of GDP)



Sources: CBOB and IMF staff estimates.

Real Effective Exchange Rate (REER)
(index)



Source: INS.

8. **Implementation of past fund advice has been mixed (Annex IV).** Some key reforms have been undertaken in the past year; chief among them is the enactment of the FRL and the decisive fiscal consolidation delivered with this year's budget, which are broadly in line with staff advice. A multilayered financial strategy to strengthen the economy's resilience to natural disasters is also being implemented. Progress is also noted in strengthening the AML/CFT frameworks and improving tax transparency in the international sector. On the other hand, other reform areas highlighted in previous Article IV consultations, such as strengthening the central bank's governance, addressing youth unemployment, and improving statistical data have seen slow progress.

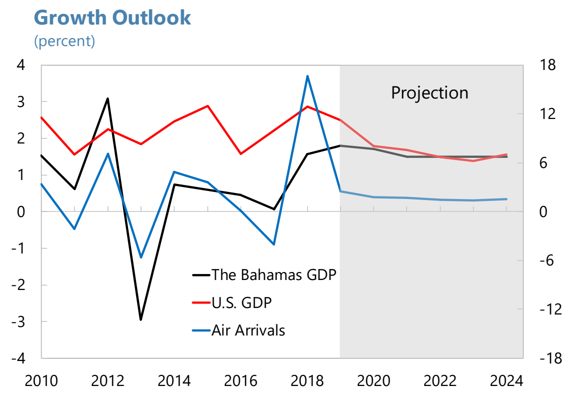
OUTLOOK AND RISKS

9. **Growth is projected to reach 1.8 percent in 2019 before converging to its potential of 1½ percent in the medium term.** New FDI-financed tourism projects and airport upgrades will sustain growth in the near-term. However, tourism arrivals growth will be dampened by slowing global growth, especially in the U.S., Canada, and the U.K, which together account for 90 percent of tourists. Domestic demand is constrained by lower purchasing power following tax increases and fiscal consolidation. Unemployment is expected to decline only gradually, as a growing labor force competes for limited jobs, primarily in the low-wage service industry. The increase in inflation is projected to be temporary as economic slack prevents second round effects. Slow progress in

reducing NPLs prevents a more vigorous economic recovery. Domestic bottlenecks and lagging economic diversification constrain medium-term growth.

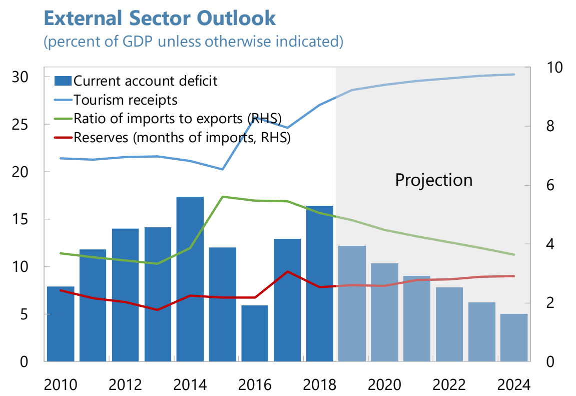
10. External accounts are expected to strengthen over the medium-term. The completion of the Baha Mar implies a significant decline in construction-related imports going forward, while its full opening boosts tourism receipts. In addition, fiscal consolidation and lower oil prices should also improve the current account, which, as a result, is projected to converge to 5 percent of GDP, while foreign exchange reserves will stabilize at 2.9 months of imports.

Growth is expected to converge to its potential of 1½ percent as U.S. and tourism growth slows.



Sources: CBOB, WEO and IMF staff estimates.

The current account deficit is projected to decline to 5 percent of GDP once one-off factors dissipate.



Sources: CBOB and IMF staff projection.

11. Risks to the outlook are tilted to the downside (Annex I). Risks to global growth, particularly in key trading partners, have increased. Slowing external demand or a tightening of financial conditions in key advanced economies could adversely affect growth prospects, while vulnerability to hurricanes and climate change remains high. Domestically, reform momentum could stall delaying fiscal consolidation and the implementation of competitiveness-enhancing reforms, both critical to preserving macro-financial stability. In the international sector, reputational risks could intensify despite the recent strengthening of regulatory and transparency standards, possibly challenging existing business models, and could pressure corresponding banking relationships (CBRs). Sustained credit contraction could slow the recovery.

POLICY DISCUSSIONS

Policy discussions focused on implementing the fiscal responsibility framework, making the economy more resilient to natural disasters, moving towards a transparent and well-regulated offshore sector, strengthening the financial sector, and improving competitiveness.

A. Fiscal Policy for Sustainable and Inclusive Growth

12. The effective implementation of the FRL and enactment of other public financial management (PFM) legislation will help secure fiscal sustainability and strengthen governance. The FRL provides an important medium-term framework to guide fiscal policy (Box 1).

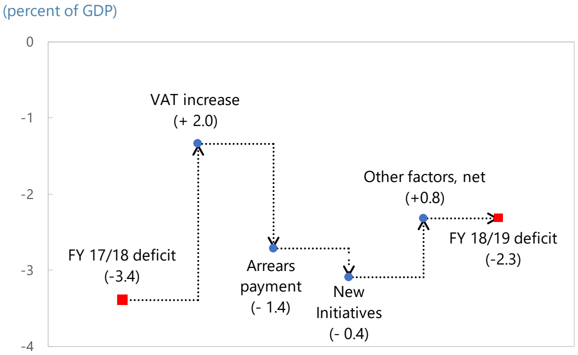
Adherence to the budget deficit target will ensure gradual convergence toward the debt anchor of 50 percent of GDP. The reporting requirements and the oversight functions exercised by the fiscal council will improve transparency and accountability. To consolidate gains in fiscal governance, staff stressed the need to enact expeditiously the PFM, Public Procurement, and Public Debt Management Laws. Investing in implementation capacity at the Ministry of Finance and other public-sector agencies will be necessary, including to respond to growing transparency requirements from the Freedom of Information Act and the FRL.

13. The government recognized payment arrears totaling 2.9 percent of GDP resulting primarily from unfunded budgetary commitments. The FY2018/19 budget includes a five-year arrears clearance strategy, including appropriations of 1.4 percent of GDP for the current fiscal year.[2] This is a decisive step to improve transparency and accountability. Staff recommended improving coordination between the Ministry of Finance, line ministries and agencies to strengthen budget preparation and prevent unfunded commitments. Migration to accrual-based recording of fiscal operations would also contribute to better cash management practices.

14. The FY2018/19 budget included a series of tax hikes, but expenditure restraint will be necessary to achieve the target. The increase in the standard VAT rate and other taxes (such as gaming and stamp duties, and fees) were the key policy measures to reach the budget deficit target of 1.8 percent of GDP in FY2018/19. Fiscal developments in the first half of the fiscal year, however, pointed to a weaker-than-expected revenue performance. This underperformance was in part due to grace periods granted for the implementation of revenue measures, tax exemptions, and legal disputes. Expenditure, on the other hand, was kept under control with a below-average budgetary execution rate. For the FY, staff projects that the deficit target will be missed by 0.5 percentage point of GDP. Staff underscored the importance of delivering on the full target to rebuild fiscal buffers and boost policy credibility, and therefore urged the government to limit new hiring to essential staff, rein in low-priority current spending, and reprioritize capital expenditure to cover for the projected shortfall.

The VAT increase is to a large extent consumed by arrears clearance and new policy initiatives.

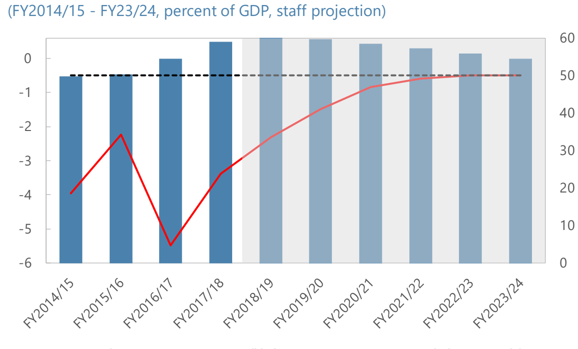
Fiscal Balance Evolution FY17/18 to FY18/19
(percent of GDP)



Source: IMF staff estimates.
Note: New initiatives include the Digital Government Intitiative and SME support.

Achieving the FRL targets will require continued fiscal consolidation efforts.

Fiscal Balance, Debt, and FRL Targets
(FY2014/15 - FY23/24, percent of GDP, staff projection)



Sources: Ministry of Finance and IMF staff projections.

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[2] Recognized but unpaid arrears are reflected in staff's measure of central government debt.

Box 1. The Fiscal Responsibility Law (FRL) and Other PFM Initiatives

The FRL, enacted in October 2018, improves fiscal transparency and includes numerical rules to guide fiscal policymaking. The new framework establishes three specific fiscal rules: (1) a ceiling on the overall budget deficit set at ½ percent of GDP; (2) a ceiling on the annual growth rate of current expenditures set at long-term nominal GDP growth (once the budget deficit target is met); and (3) a ceiling on government debt set at no more than 50 percent of GDP (which the authorities expect to meet by FY2024/25). There is a transition period, during which fiscal consolidation efforts will gradually bring down the overall budget deficit to the target by FY2020/21. During the transition phase, the overall budget deficit shall not exceed 1.8 percent of GDP in FY2018/19 and 1 percent of GDP in FY2019/20. Considering uncertainty in macroeconomic forecasts, the FRL provides for a compliance margin of ½ percent of GDP in any given fiscal year, including the transition period.

Key elements of the FRL

	Target	by	2014-18 average
Overall balance (percent of GDP)	-0.5	FY2020/21	-3.9
Expenditure growth	~4	FY2021/22	5.9
FRL debt (percent of GDP) 1/	50	FY2024/25	58.9 2/

1/ Debt as defined in the FRL covers the central government, excluding payment arrears and promissory notes issued to recapitalize the Bank of The Bahamas.
2/ Value for end FY2017/18.

The law establishes a fiscal council that will help enhance transparency and bolster the credibility of the rule-based policy framework. The fiscal council's mandate is to assess compliance with the law and advise on budgetary matters, including the review of the fiscal strategy report, annual budget, mid-year review, pre-election economic and fiscal update, government accounts, and the government's fiscal adjustment plan in response to deviations from the FRL targets. Staff recommended operationalizing the council by mid-2019 to enable an assessment of the government's Fiscal Strategy Report by end-January, an assessment of the mid-year review against the FRL targets by end-March, and an assessment of the government's annual budget by end-July, as required by the law.

The FRL also introduces a series of new fiscal reporting requirements, including a fiscal strategy report, and guides ongoing PFM reforms. To monitor progress with the targets, the authorities already issued a fiscal strategy report as part of the annual budget documentation (the first publication was in November 2018) and revamped quarterly fiscal data reporting. Related PFM reforms include: (1) replacing the Financial Administration and Audit Act with the Public Financial Management Act to strengthen fiscal transparency across all layers of the government; (2) modernizing the procurement system in line with international best practices; and (3) reforming debt management.

The fiscal rules and PFM procedures enshrined in the FRL are consistent with previous staff advice. The design was discussed during the 2018 Article IV Consultation and benefitted from technical assistance from CARTAC and other development partners. Effective implementation places new capacity demands on the administration, requiring appropriate staffing of the macro-fiscal and debt management units at the Ministry of Finance, and the forthcoming fiscal council.

15. **Additional fiscal effort is necessary to meet the FRL targets over the medium term.** Absent additional measures, the fiscal balance is projected to reach the FRL target only in FY2022/23 and the debt ratio will remain above 50 percent of GDP (the FRL target) beyond FY2024/25. Decisive measures are recommended to keep debt on a downward path, while carefully balancing the composition of spending to achieve inclusive growth and invest in natural disaster preparedness. On the revenue side, strengthening the tax administration capacity in line with CARTAC advice is

critical to reduce tax gaps. Against this background, staff recommended to contain expenditure growth by further rationalizing the wage bill, advancing the pension reform, and accelerating state-owned enterprises (SOEs) reforms.[3]

16. A comprehensive review of tax expenditures would help fiscal consolidation, inform policymaking, and improve transparency. While efficiently designed tax incentives can play a role in attracting investment, they need to be weighed carefully against current and future costs. Studies estimate that tax expenditures amount to, on average, 3½ percent of GDP in the region, narrowing the tax base and creating distortions.[4] Staff recommended introducing a periodic quantification and review of tax expenditures and other incentives, noting that such a review can rationalize incentives policy, raise revenue, and increase transparency and accountability.

17. Tax policy could play a better role in achieving public policy objectives, including greater equality in income distribution. The Bahamas does not levy taxes on income, capital gains, or inheritance. Instead, the VAT and business license fees are the main tax policy tools, with property taxation playing a small role. The government is removing preferential tax treatment of offshore entities by unifying the business fee licensing framework (Annex VII). The Bahamas is also seeking membership of the World Trade Organization (WTO) by 2020, a process which is expected to reduce revenue from trade.[5] In the short-term, staff encouraged seeing through efforts to complete a comprehensive land/property registry and recommended building comprehensive real estate price indices to provide a basis for market-value-based property taxation, and consider an increase in its tax rate or rate structure. Global trends in taxation present an opportunity for a comprehensive approach to reform the tax system with a view to increasing its efficiency and enhancing progressivity. For the medium-term, income taxation can help achieve a more equitable income distribution, reduce distortions arising from a tiered business license fee system (especially if applied in the context of the VAT), and contain the increasing non-residents' profit repatriation.

B. Increasing Resilience to Natural Disasters and Climate Change

18. The economy is vulnerable to natural disasters and climate change. About 80 percent of the land area lies less than 3 feet above sea level, highlighting vulnerability to sea level rises and storm surges. The increasing frequency and intensity of extreme weather events presents challenges to preserving human life, maintaining economic activity, and achieving fiscal sustainability.

19. A comprehensive disaster resilience strategy is recommended to consolidate and unify all aspects of resilience. As part of a three-pillar strategy,[6] *financial resilience* is being built. *Structural resilience* can be strengthened by better enforcing building codes and improving coastal

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[3] For previous staff advice in these areas see IMF Country Report No. 18/118.

[4] Longinotti, F., 2018, "Overview of Tax Expenditures in Latin America: Main Statistics of the CIAT Database", WP-05-2018 (Panama City: Inter-American Center of Tax Administrations).

[5] Custom duties amount to almost one-third of total tax revenues (about 5 percent of GDP), with an average customs duty rate of around 30 percent.

[6] See "Building Resilience in Developing Countries Vulnerable to Large Natural Disasters", IMF SM/19/68.

management. To facilitate *post-disaster resilience*, sectoral and territorial responsibilities need to be well defined for a speedy recovery while minimizing disruptions to public services.

20. A natural disaster fund is being set up as part of a multilayered financial resilience strategy (Box 2). Staff welcomed this initiative and recommended that appropriate governance and safeguards should be provided for in the fund's law. This includes appointment and definition of responsibilities of a management and supervising board chaired by the Minister of Finance, asset management rules, procedures to release funds, and annual financial and strategic reporting to parliament. Future allocations to increase the fund's firepower should take place through the budgetary process.

Box 2. Building Resilience to Natural Disasters

The Bahamas has taken steps to implement a multilayered disaster risk financing strategy. Ex-ante financial preparedness can reduce the fiscal impact and support the recovery, reducing the overall cost when disaster strikes. A tiered approach to financial risk mitigation is recommended, where different financial instruments respond to different layers or risk.[1] The Bahamas has taken important steps in the last year:

- **Natural disaster fund.** The authorities are drafting the legislation for a natural disaster fund to respond to the needs of lower impact, but higher frequency events. The fund will be set up using seed money from the proceeds of extinguished dormant accounts in the banking system estimated at US$41 million.
- **Contingent credit line.** The authorities reached an agreement with the Inter-American Development Bank (IDB) to address financing needs from high impact events that occur with lower frequency, securing access to a US$100 million credit facility, which will provide liquidity after natural disasters and features parametric triggers to activate loan disbursements.
- **Disaster insurance.** After a period of suspension, The Bahamas signed back up to the parametric insurance coverage from the Caribbean Catastrophe Risk Insurance Facility (CCRIF). The new arrangement tailors the coverage (while reducing premiums), splitting the archipelago into three zones, each with separate parametric triggers, featuring different attachment points and payout factors to enhance the coverage.

Vulnerability to natural disasters requires upgrading physical resilience. Investment in resilient infrastructure involves upfront costs, but benefits pay off over time as recovery costs are lower. In this context, the following initiatives are being pursued, among others:

- Bahamas Power and Light (BPL) has improved its infrastructure by replacing underground cables and reinforcing overhead networks in consideration of natural disasters.
- With support from development partners, The Bahamas is strengthening sustainable coastal protection and risk management. An ongoing, US$35 million loan project from the IDB is geared towards strengthening natural infrastructure, restoring of coastal natural habitats, and improving coastal flood control measures.

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1/ See World Bank GFDRR, IMF SM/19/68, and IMF Country Report 18/118, Box 1.

C. Safeguarding Financial Stability

21. The health of the banking system continues to improve, but risks associated with domestic asset quality remain. The 2019 FSAP found that further progress in supervision of credit underwriting and timely resolution of NPLs in some banks and credit unions remains a key objective to ensure the banking system's continuing resilience against adverse shocks. There is little visibility for regulators into the dynamics of the domestic residential real estate market, which accounts for ¾ of NPLs. A real estate price index and the collection of loan-level data would assist in market monitoring and future implementation of loan-to-value (LTV) or debt-to-income (DTI)-based lending standards. It would also enhance the quality and pace of transactions in the residential mortgage market. Staff recommended swift implementation of the credit bureau and an asset registry to help make credit markets more efficient.

22. The public Bank of the Bahamas (BOB) has been bailed out twice in recent years. The capital injections the bank received in 2014 and 2017—totaling about 2.2 percent of GDP—highlight the need to complete the planned legislative reform to enhance recovery and resolution powers. Staff encouraged action regarding a reform plan for the Bank of the Bahamas (BOB), and efforts to strengthen governance of state-controlled financial institutions to help prevent recurrence of the poor lending practices that gave rise to BOB's bailouts. A strategic review of the bank should be undertaken.[7]

23. Correspondent banking relationship (CBR) pressures have stabilized after perceived reputational risks led to the withdrawal of some CBRs. The reliance on affiliated international banks and the emergence of third-party institutions to execute international financial transactions has limited the impact of CBR pressures. According to the CBOB 2017 survey, one-third of the surveyed financial institutions not using parents or affiliates still reported having a relationship with one or two large U.S. correspondent banks. In view of ongoing global trends and pressure on CBRs in small economies, staff recommended a more systematic monitoring of CBR pressures, including issues such as concentration risks in payment corridors and increase in transaction costs.

24. The Bahamas has been identified by the Financial Action Task Force (FATF) as a country with strategic AML/CFT deficiencies and is taking steps to address this. The authorities have made progress in addressing technical compliance deficiencies, including by revising laws and regulations, strengthening supervisory guidelines and codes of conduct. Staff recommended enhancing the effectiveness of the AML/CFT framework by focusing on implementation, including by strengthening risk-based supervision of financial institutions and designated non-financial businesses and professions,[8] and implementing measures to enhance entity transparency, as agreed with the FATF.

25. The government is responding to the heightened scrutiny of its offshore sector by strengthening AML/CFT frameworks and modifying its legal and fiscal frameworks. The

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[7] See FSSA 2019 Appendix III for a discussion of BOB.

[8] These include casinos, real estate agents, lawyers, accountants, and trust company service providers.

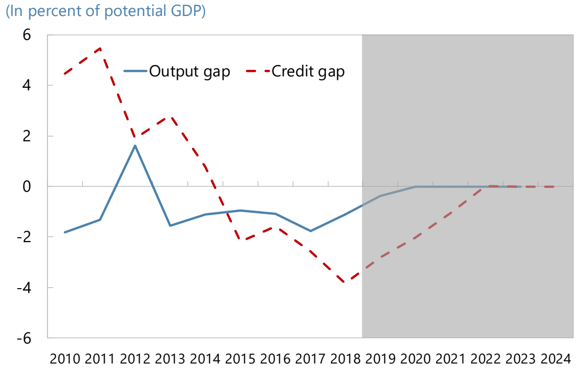
Bahamas has a large international financial sector, amounting to about 21 times GDP as of 2018, and significant non-financial business operations. Offshore banking is separated from the domestic financial system; strict exchange controls keep the domestic economy separated from the international sector. Historically offshore banks have been unable to offer their services to domestic residents. A new legal and fiscal framework is being developed to address concerns from international bodies over harmful tax practices (Annex VI). Staff recommended swift implementation of the new frameworks to demonstrate the commitment to a well-regulated and transparent sector, reduce reputational risks, and provide more certainty to market participants. The new licensing regime which allows financial institutions to serve both international and domestic clients—subject to exchange controls—requires enhanced monitoring.

26. Looking ahead, a medium-term strategy for the international sector is recommended to safeguard its contribution to the Bahamian economy. The changing international environment means that offshore business models will continue to evolve. Tax transparency requirements and the requirements for real economic activity and substantial economic presence are principles designed to prevent harmful tax practices. Some countries are moving towards territorial taxation of income, including through minimum effective income taxes. Accordingly, a review of the competitive advantage The Bahamas has to offer to international business corporations in this new environment can enable the government to charter a forward-looking strategy for the sector to ensure its continued contribution to the economy.

D. Maintaining Monetary Stability

27. Excess liquidity calls for reducing CBOB holdings of government debt and strengthening the monetary policy transmission. The policy rate has been at 4 percent since October 2016. The accommodative stance is appropriate because the output and credit gaps are negative and core inflation is contained. However, like other small open economies with a pegged exchange rate and strong exchange controls, monetary policy transmission in The Bahamas is weak. A large structural liquidity surplus exists as banks maintain conservative lending practices and pension funds and insurance companies hold liquid assets. Staff welcomed the recent trend reduction of CBOB's holdings of government debt from 6.1 percent of GDP in 2016 to 4.2 percent as of end-2018, and encouraged a further reduction. Deepening domestic debt and interbank markets would help reduce excess liquidity and improve monetary transmission.

Output and Credit Gaps
(In percent of potential GDP)



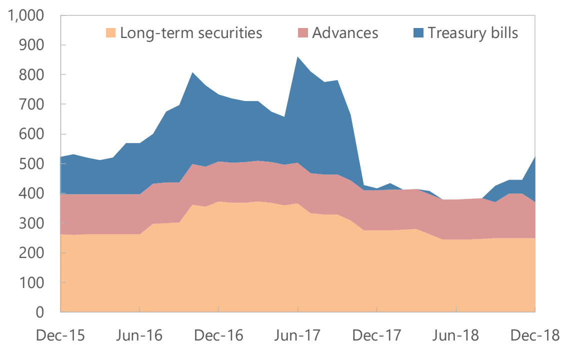
Source: IMF staff calculations.

28. Strengthening the central bank's governance and independence, in line with international best practices, would enhance its operational effectiveness. Staff advocated the immediate adoption of the planned amendments to the CBOB law, designed to strengthen the

central bank's governance and independence, clarify its operational objectives, and limit lending to the government. In this context, staff welcomed the progress towards the establishment of a debt management unit in the Ministry of Finance; a debt management strategy—consistent with the FRL—is important to reduce reliance on central bank lending to the government. A comprehensive public debt management strategy would facilitate the deepening of the domestic debt market for example through using issuances through regular and pre-announced auctions and efficient communication channels with market participants.

The CBOB has reduced Treasury bill holdings.

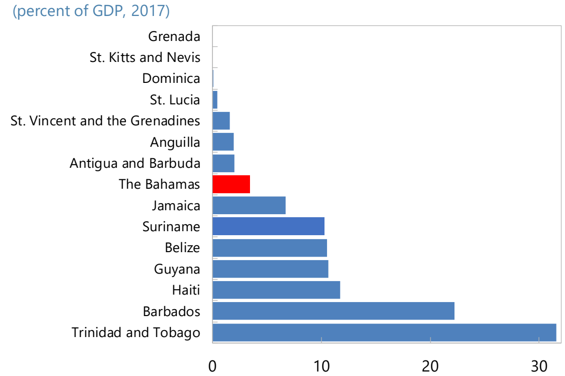
Central Bank Holdings of Government Debt
(B$ million)



Sources: CBOB.

Central bank claims on the government are low compared to the region.

Central Bank Claims on the Government
(percent of GDP, 2017)



Sources: National authorities and IMF staff calculations.

29. The exchange rate peg is supported by exchange controls. Capital controls have been gradually relaxed in recent years by reducing the premium charged on buy and sell rates in the Investment Currency Market. Exchange controls, however, remain instrumental to managing foreign exchange reserves and balance-of-payments flows, in particular in view of large—but irregular—transactions related to FDI projects. Staff highlighted the importance of continuing to build-up reserves to underpin the credibility of the peg. In view of reserves impact of an SOE debt refinancing operation in 2018, staff recommended that the public debt management strategy be sufficiently broad to allow for the integrated management of all public sector financing requirements, including that of SOEs.

30. The authorities plan to strengthen financial inclusion by issuing a central bank digital currency (CBDC). The CBOB is planning to pilot a digital version of the Bahamas Dollar (Box 3) as a means of payment to boost financial inclusion, especially in smaller islands of the archipelago. By enabling peer-to-peer transactions, for example through e-wallets, a CBDC can increase access to digital payments systems. Staff acknowledged that innovative technologies can help bridge gaps in the financial landscape. However, the issuance of e-currency can also pose risks to financial stability, cybersecurity, and in the AML/CFT sphere (Annex VII). Staff recommended investment in human capital and technological capabilities to ensure that the pilot—and the full-scale adoption of a general purpose CBDC—is compatible with, and complementary to, the existing financial infrastructure. Staff also noted that wider geographic penetration of digital payments can also be

achieved by deploying proven technologies, such as mobile phone applications, and enabling greater access to automated teller machines (ATMs).

31. The Bahamas would benefit from addressing gaps in financial infrastructure and supporting financial literacy at large. The 2019 FSAP[9] found that a series of reforms would help reduce the cost of financial services and close demographic, geographic and socioeconomic gaps in financial intermediation. Staff recommended enhancing the legal framework to facilitate new entrants into the payments sector and issue detailed supervisory guidelines for payment systems operators. Introducing formal coordination mechanisms for the various public funds targeting SMEs and strengthening their governance could boost their effectiveness and efficiency.

Box 3. Project Sand Dollar

The CBOB will pilot a central bank digital currency to boost financial inclusion. Given the geographic fragmentation of the archipelago, the CBOB views offering a digital form of payment as providing a public good, due to the sparsity of traditional banking services in many of the islands. The project pursues multiple, complementary objectives, including (i) making the payments system more efficient; (ii) using technology to achieve more inclusive, cost affordable, and even access to financial services; and (iii) strengthening the financial infrastructure against money laundering and other illicit purposes by reducing cash transactions.

The "Sand dollar" will be a digital version of the Bahamian dollar, with both wholesale and retail applications.[1] The pilot project will be conducted in Exuma, a group of islands home to about 2 percent of the population and will start in late 2019 / early 2020 for a trial period of six-months. The "Sand dollar" will be a general purpose, digital version of the Bahamian dollar and be accepted as a legal tender, exchanging one for one with existing notes, coins and balances. The CBOB notes that the project design will incorporate best international practices against AML/CFT risks, and users will not be anonymous since know-your-customer rules will be incorporated into its design. The currency would build on blockchain infrastructure, with technical capabilities that satisfy the requirements for swift processing of payments. It is intended to complement, not replace, existing banking services; balances will not accrue interest, and a ceiling on amounts held in e-wallets will be set. The CBOB places emphasis on ensuring interoperability with existing private service providers and financial institutions, data privacy and sovereignty, as well as solid cyber security.

1/ See Rolle, John A. "The Bahamian payment system modernisation - advancing financial inclusion initiatives" https://www.bis.org/review/r190321a.htm.

E. Enhancing Competitiveness

32. Decisive structural reforms are needed to enhance competitiveness. Long-standing structural impediments continue to weaken competitiveness and constrain private investment and growth. The World Bank's ease of doing business index (DBI) points to onerous administrative processes, high costs of trading across borders, poor access to credit, and lack of reliable and affordable electricity. These factors are aggravated by the strength of the currency in real effective terms. Tackling these structural bottlenecks is urgent to prepare the economy for the planned accession to the WTO in 2020. Action is needed in the following areas:

[9] See FSAP 2019 Technical Note on Financial Inclusion.

- ***Advancing energy sector reforms.*** Reforms include a restructuring of the state-owned Bahamas Power and Light (BPL), upgrading the electricity transmission and distribution networks, installing a 220-megawatt power plant and a regassification terminal, and switching from heavy oil to less expensive natural-gas based power generation. Staff recommended strengthening regulatory oversight of both BPL and private sector operators, and encouraging energy efficiency and conservation measures, including in the hotel industry. Investment in cost-effective renewable energy solutions through FDI and technology transfer should be encouraged by an appropriate regulatory framework.

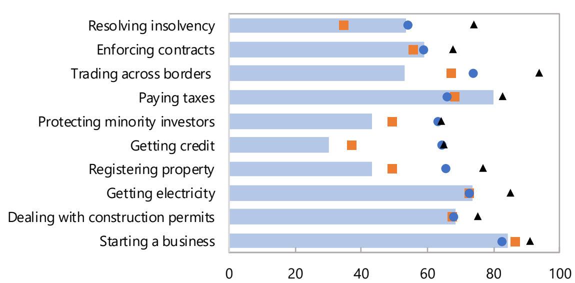
- ***Lowering costs of transacting with the government:*** In early 2019, the parliament approved a US$ 30 million loan from the IDB, for the *Government Digital Transformation to Strengthen Competitiveness Program (DTP),* which aims at fostering the competitiveness of the economy by reducing the costs of conducting business with the government. In addition, enacting the Integrity Commission Bill would provide for the establishment of an Integrity Commission empowered to take measures to prevent, detect, and investigate corruption in the public sector.

Competitiveness Indicators

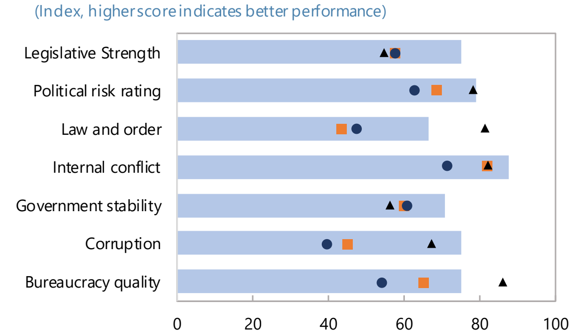
The Bahamas lags behind peers in many Doing Business indicators ...

but scores well on most governance indicators ...

Doing Business Indicators, 2019
(Score, higher values represent greater ease of doing business)



Political Risk Indicators 1/ 2/
(Index, higher score indicates better performance)

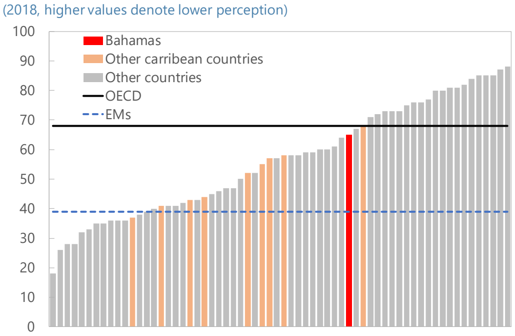


Bahamas Caribbean EMs OECD

with low perceived levels of corruption in regional comparisons ...

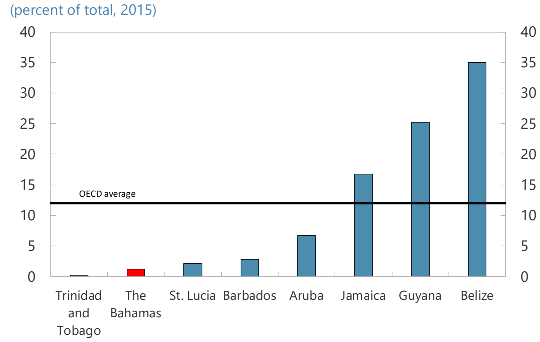
while lagging Caribbean peers in the adoption of renewable energy.

Corruption Perception Index
(2018, higher values denote lower perception)



Source: Transparency International.

Renewable Energy Consumption
(percent of total, 2015)



Source: Transparency International, World Bank Doing Business project, The PRS Group ICRG rating and IMF staff calculations.
1/ Original score rescaled to 0-100 range
2/ Caribbean countries include Bahamas, Dominican Republic, Guyana, Jamaica, and Trinidad and Tobago

- ***Easing labor-market bottlenecks:*** High unemployment among the youth reflects structural factors, beyond constraints from labor market institutions.[10] Staff recommended expanding vocational and apprenticeship programs to help reduce skills mismatches, and more broadly improving the quality of education to boost human capital accumulation. Also, further improving and developing online skills databases and job placement services should help facilitate the matching process between employers and job seekers. The authorities are taking a five-prong approach, along the lines recommended by staff, to education reform and to tackle the skills mismatch in the labor market (see Annex II).

F. Investing in Data

33. Priority should be given to improve the availability and quality of data. Staff welcomed the recent subscription to the enhanced General Data Dissemination System,[11] the adoption of International Public Sector Accounting Standards in fiscal accounts, and the increased reporting on fiscal data. Staff argued that timely availability of more comprehensive data will allow the government to better target policies, quickly respond to economic developments, and detect risks. Moving forward with the production of quarterly national accounts, compiling the balance-of-payments statistics according to the BPM6 manual and producing estimates of the International Investment Position is recommended, as is conducting a household survey and improving labor market data. To improve accessibility and dissemination, staff recommended publishing and adhering to an advance calendar of data releases and making data available to the public in a user-friendly form.

AUTHORITIES' VIEWS

34. The authorities broadly concurred with staff's views of the outlook and risks, but anticipate a more robust economic performance and point to increased resilience. While concurring with the prevalence of downside risks, they expect stronger growth in 2019 and over the medium term, driven mainly by continued high tourism growth and new FDI projects. They also noted progress towards a natural disaster resilience strategy thanks to new financial arrangements. The CBOB pointed out that the rate of credit contraction has diminished and that a gradual expansion in bank lending should provide an additional boost.

35. The authorities reiterated their commitment to achieving the FRL targets and legislating PFM reforms to strengthen governance and accountability. While recognizing a potential revenue shortfall in FY2018/19, the authorities were confident that tight expenditure control will enable them to achieve the budget target. They further stated that ongoing reviews—including of investment incentives, SOE governance, and the pension system—will help inform expenditure rationalization over the medium term. The authorities noted that there are no plans to change the tax system at this time.

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[10] IMF Country Report No. 18/119, Chapter 2.

[11] https://www.centralbankbahamas.com/e-gdds.php.

36. The authorities remain committed to a transparent and well-regulated offshore sector. They emphasized that ongoing reforms to the regulatory and fiscal frameworks will bring the sector in line with international standards. Noting the sector's macroeconomic importance, the authorities stressed their objective to preserve The Bahamas as a competitive tax jurisdiction that is fully compliant with AML/CFT standards and international tax transparency requirements.

37. The authorities were in broad agreement with the FSAP recommendations. This includes enhancing supervision of credit underwriting and NPL resolution, strengthening recovery and resolution powers for the central bank, and improving AML/CFT practices. On the latter, the authorities noted recent advances and significant resources they are committing to support implementation and effectiveness of the AML/CFT framework. The authorities also agreed to the need for better macro-financial monitoring tools, such as a real estate price index, and committed to continued improvements in transparency and enhanced monitoring of the offshore sector, particularly given the changes to the bank licensing regime. To strengthen the governance of public financial institutions, they pointed to the draft Corporate Governance Bill that will subject all SOEs, including public banks, to rules limiting political interference.

38. The authorities assessed the monetary policy stance as appropriate. The CBOB shared staff's views on monetary policy, including on the need to maintain an accommodative stance during a period of low credit growth and fiscal consolidation, and regarding the weaknesses of monetary transmission. The authorities intend to submit the amendment to the central bank law, which aims to strengthen the central bank's governance, operations, and independence, to parliament in 2019.

39. The authorities emphasized that a CBDC can enhance financial inclusion and help modernize payment systems. The CBOB indicated that the pilot will be used to gather critical information on how best to address technological challenges and cater for changes in payment system usage and reassured that the project design includes safeguards against possible risks. They also stressed that the CBDC is designed to complement, not substitute, private banking services.

40. The authorities shared staff's assessment of the need to advance structural reforms to strengthen competitiveness. The authorities concurred that the external position in 2018 was weaker than suggested by fundamentals and shared staff's view that structural reforms hold the key to shift the economy to a higher and more inclusive growth path. They recognized the need to continue building external and fiscal buffers, and to take reforms to lower costs and raise productivity. They stressed that the WTO accession process will allow analyzing the implications for the Bahamian economy and putting in place necessary safeguards to mitigate disruptions, enabling a transition towards a more open and competitive economy.

41. The authorities are addressing shortcomings in data collection and dissemination. In coordination with development partners, the authorities are developing a national strategy for statistics and drafting a new statistics law to modernize and unify the country's statistical network under the umbrella of an independent institute of statistics.

STAFF APPRAISAL

42. The enactment of the FRL and steps to consolidate the fiscal position underpin macro-financial stability and guard against risks. Buoyant activity in tourism and construction has revived growth. However, unemployment remains high, particularly among young people, and is projected to decline only gradually, due largely to structural factors. While the medium-term outlook is positive, risk factors could weigh on growth. Important steps have been taken to increase resilience against natural disasters.

43. The effective implementation of the FRL will bolster policy credibility and ensure durable gains from fiscal consolidation. Staff welcomes the commitment to keeping the pace of fiscal adjustment in line with the FRL target but sees the need for stronger PFM systems and procedures to address weaknesses in expenditure control and budget preparation. To ensure permanent advances in budgeting, transparency, and accountability, the ratification of the remaining PFM reforms and operationalization of the fiscal council before end-2019 is key. To safeguard long term debt sustainability, decisive measures, including in the areas of public pensions and healthcare, are required and need to be carefully balanced with priorities for more inclusive growth and disaster preparedness.

44. Fiscal policy should play a greater medium-term role in achieving public policy objectives, including greater income equality. Global tax trends and the prospective accession to the WTO present an opportunity for a comprehensive review of the tax regime with a view to achieving a more equitable and less distortionary tax system. In this context, a quantitative review of existing tax and other investment incentives can strengthen transparency and inform future policies.

45. The banking sector remains sound, but credit growth is hampered by non-performing loans (NPLs) and lack of information about potential borrowers. The 2019 FSAP found that the banking sector enjoys healthy profits and maintains high capital and liquidity ratios. Further progress in supervision of credit underwriting and timely resolution of NPLs remain key objectives. A local real estate price index should be introduced to increase visibility into the residential housing market and improve NPL valuations. The credit bureau, once operational, should strengthen the quality and pace of credit activity and improve assessment of lending standards.

46. Strengthening the central bank's recovery and resolution powers will enhance banking sector resilience. The recapitalizations of the Bank of The Bahamas highlight the need to complete planned legislative reform and enhance governance of public asset management companies. Governance arrangements for state-controlled financial institutions should be strengthened to ensure their continued effective and independent supervision.

47. Swift implementation of the new framework for the international sector will demonstrate commitment to ensuring a transparent and well-regulated industry. Potential spillovers into the domestic financial system from the unification of banking license regimes require careful monitoring. In the medium term, reviewing the competitive advantage The Bahamas has to

offer to international business corporations in light of global trends can help secure the sector's contribution to the economy.

48. New financial technologies can advance financial inclusion; nonetheless, risks involving a CBDC need to be well understood and mitigated. Wider geographic penetration of digital payments can also be achieved by modernizing payment systems and using proven technologies. Staff welcomes the CBOB's emphasis on protecting against risks associated with the introduction of a CBDC.

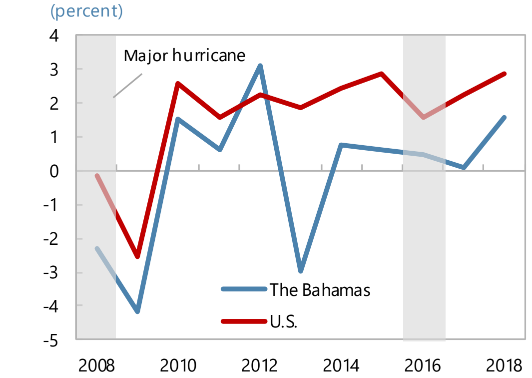
49. Addressing structural impediments is paramount to strengthen competitiveness and unlock the economy's potential for high and inclusive growth. Significant current account deficits—projected to continue, albeit at a declining rate—over the medium term highlight the need for advancing structural reforms to boost competitiveness alongside fiscal consolidation and accumulation of foreign exchange reserves. Staff argues that the planned WTO accession makes it even more urgent to tackle remaining impediments, including high energy costs, bottlenecks in access to credit, and skills mismatches in the labor market.

50. Staff recommends that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. The Bahamas: Real Sector Developments

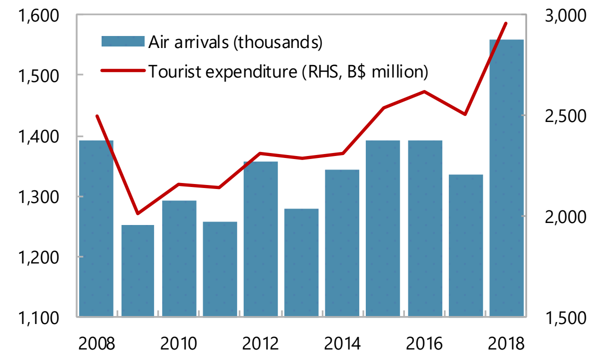
Real GDP growth returned in 2018 after a period of stagnation...

Real GDP Growth
(percent)



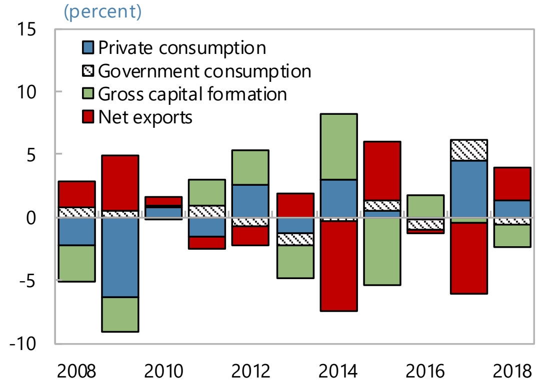
...supported by strong tourism activity....

Tourist Air Arrivals and Expenditure
(thousands of persons and B$ million)



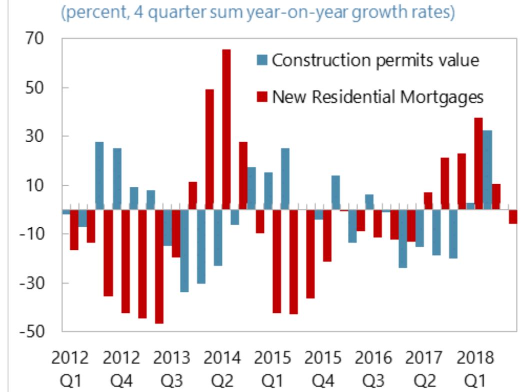
sustained private consumption....

Contributions to Real GDP Growth
(percent)



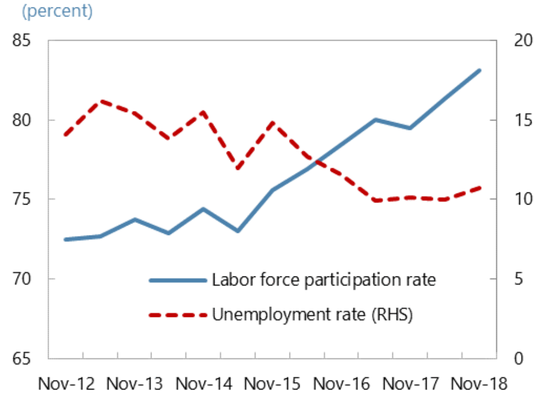
...and a pickup in construction activity.

Construction Indicators
(percent, 4 quarter sum year-on-year growth rates)



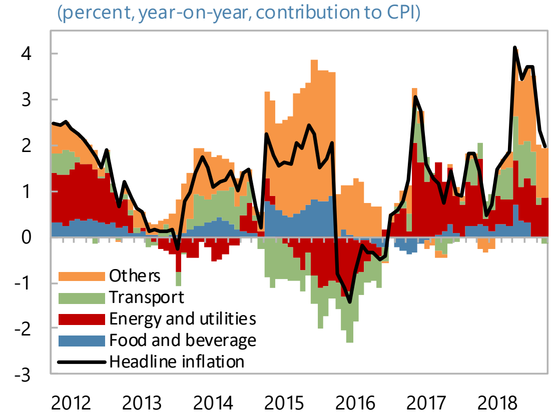
Despite the increase in employment, the unemployment rate remained flat because of higher labor force participation.

Labor Force Participation and Unemployment Rate
(percent)



Inflation increased in 2018 due to the VAT increase and volatile fuel prices.

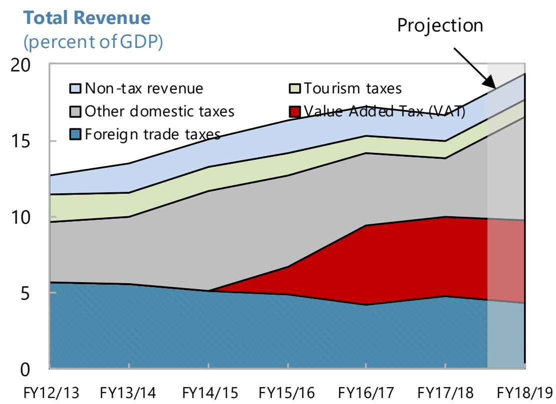
Inflation
(percent, year-on-year, contribution to CPI)



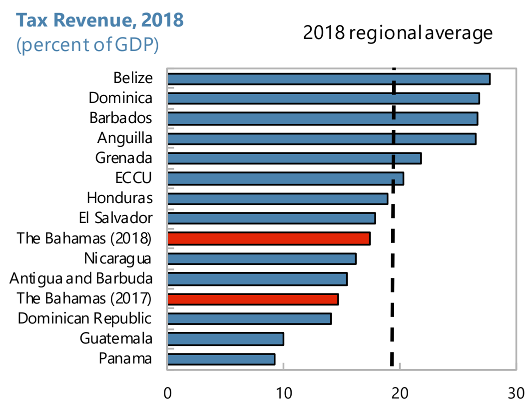
Sources: CBOB, Department of Statistics, Labor Force Survey, and IMF Staff estimates.

Figure 2. The Bahamas: Fiscal Developments

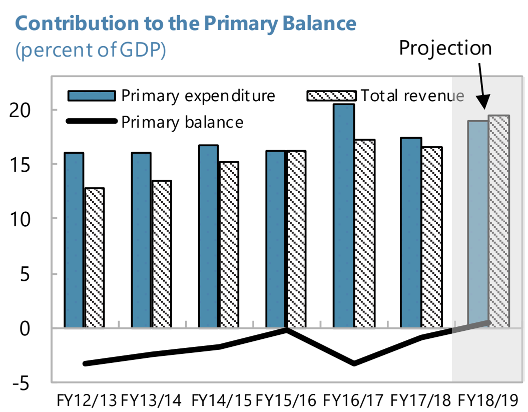
The VAT boosted tax revenue...



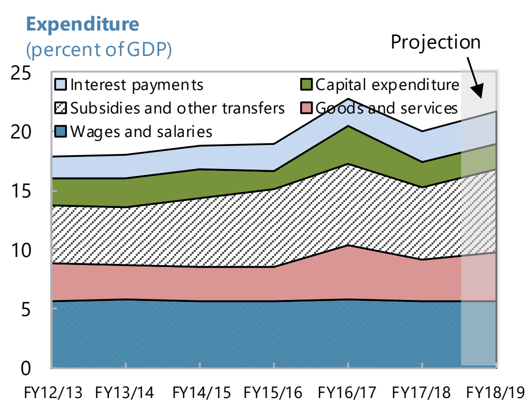
...bringing it closer to the regional average...



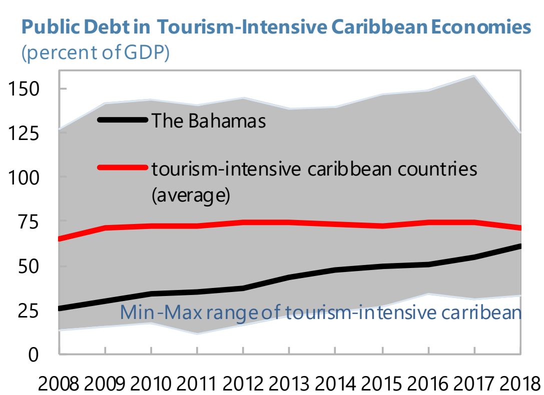
...and helped lower primary deficits...



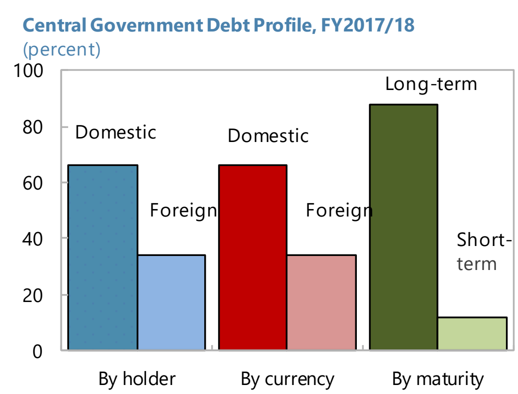
...despite increases in spending.



Central government debt rose faster than in peers...



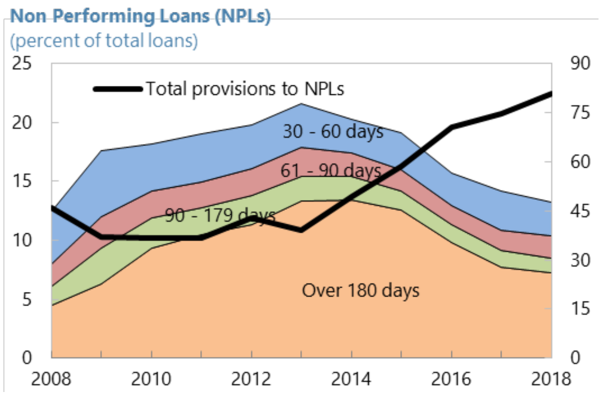
...but the debt profile remains skewed towards domestic holders and currency, and long term.



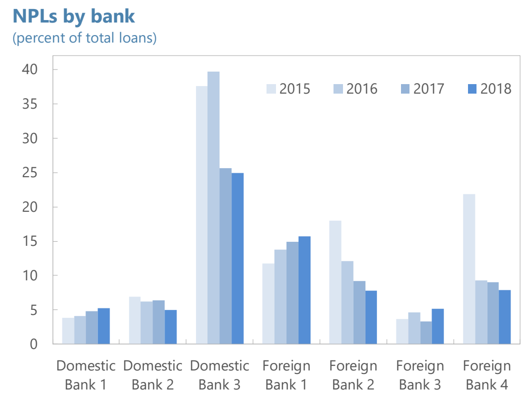
Sources: CBOB, Department of Statistics, Labor Force Survey, and IMF Staff estimates.

Figure 3. The Bahamas: Financial Sector Developments

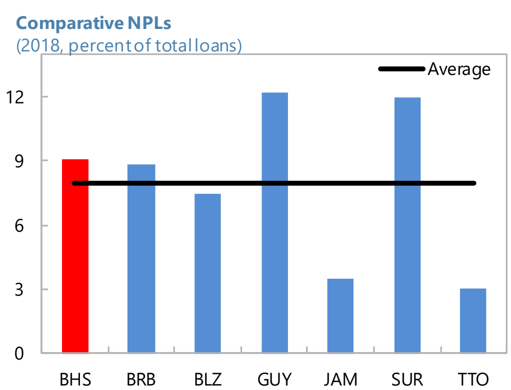
Non-performing loans (NPLs) have declined…



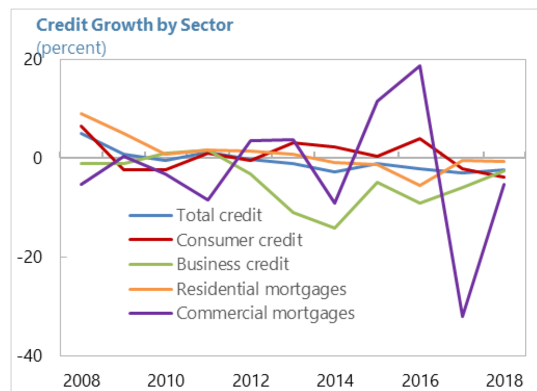
…even as progress has been uneven among banks.



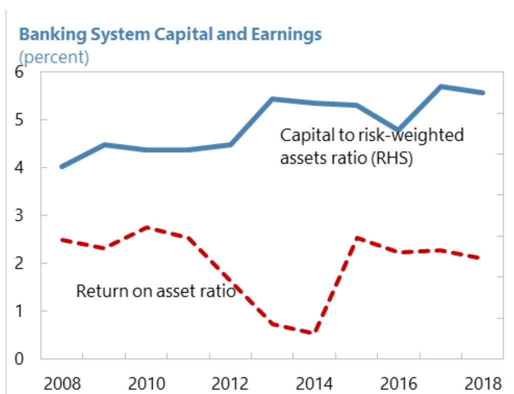
NPLs are close to the regional average.



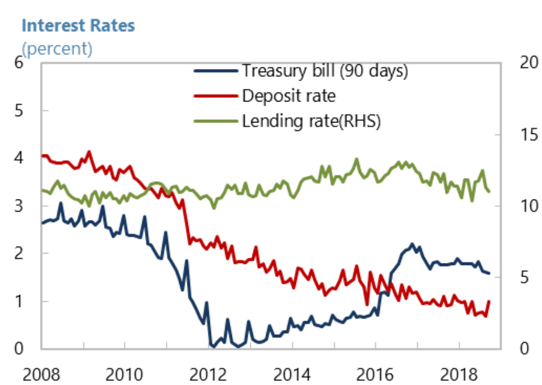
Credit continues to contract.



The banking sector maintains high capital ratios and is profitable…



… thanks to interest spreads.



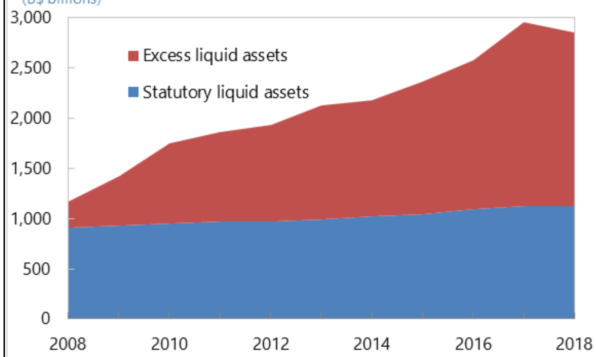
Sources: CBOB; Insurance Commission of The Bahamas; and IMF staff calculations.

Note: BHS: Bahamas, BRB: Barbados, BLZ: Belize, GUY: Guyana, JAM: Jamaica, SUR: Suriname, TTO: Trinidad and Tobago.

Figure 3. The Bahamas: Financial Sector Developments (Concluded)

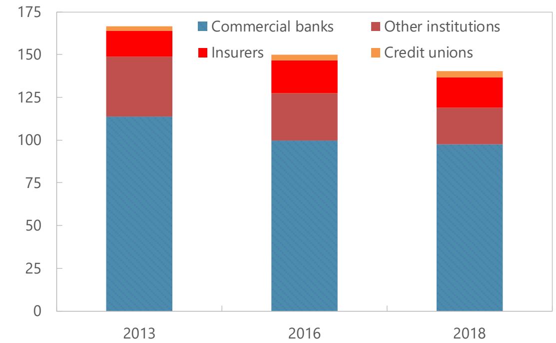
While lending to the private sector is declining, the banking sector has accumulated liquidity.

Bank Liquid Assets
(B$ billions)



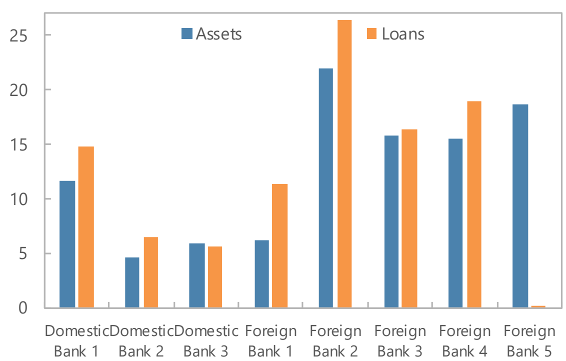
Overall, the domestic financial sector, mainly commercial banks, has been shrinking.

Domestic Financial System Assets
(percent of GDP)



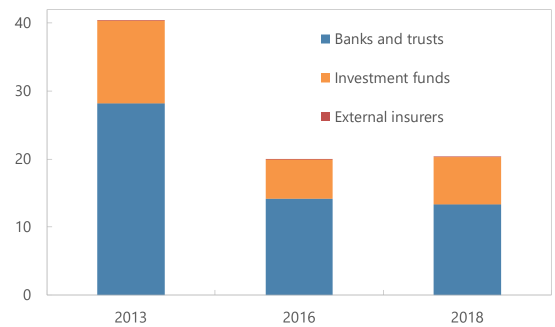
The size and structure of domestic banks' balance sheet is diverse.

Assets and Loan Concentration 1/
(2018, percent of total)



The offshore financial sector has declined, too.

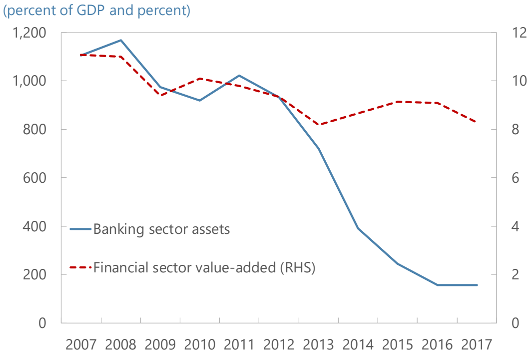
Offshore Financial System Assets
(multiples of GDP)



Sources: FSAP, CBOB, IMF Staff estimates.

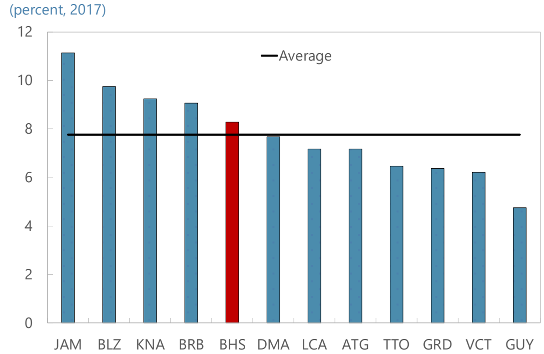
As a result, the contribution of the financial sector to the economy has declined somewhat…

Banking Sector Assets and Value Added
(percent of GDP and percent)



… bringing it in line with the regional average.

Financial Sector Value Added
(percent, 2017)

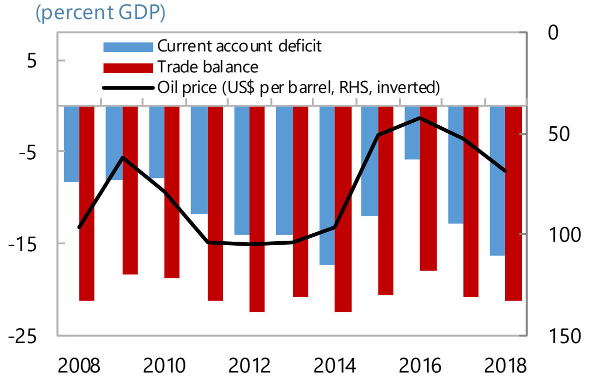


Sources: CBOB, FSSA 2018, FSAP, IMF staff estimates.
1/ One foreign bank closed operations in 2018.

Figure 4. The Bahamas: External Sector Developments

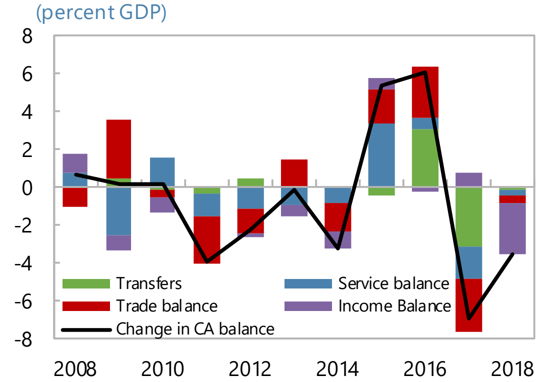
Higher oil prices and high imports…

External Sector Developments
(percent GDP)



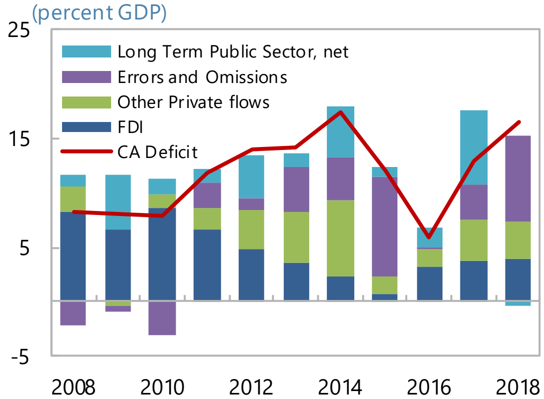
…increased the 2018 current account deficit.

Contribution to Change in Current Account
(percent GDP)



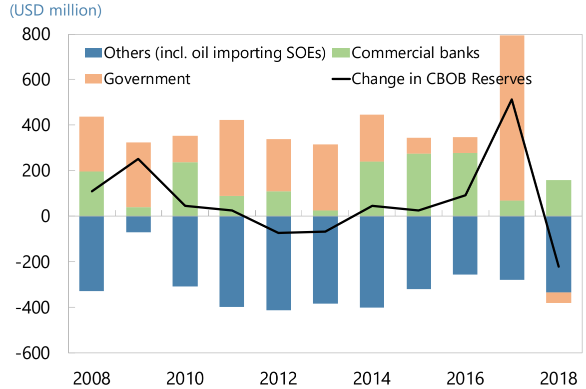
Absent public sector net external borrowing…

Current Account Balance and Capital Flows
(percent GDP)



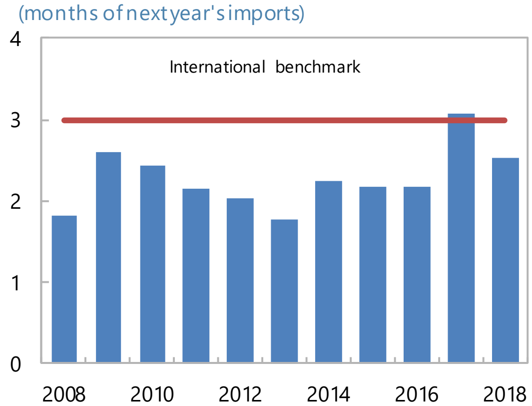
…foreign reserves fell in 2018,

Change in FX Reserves
(USD million)



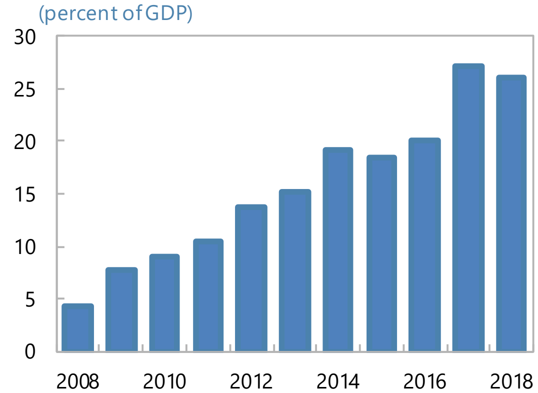
…to below the 3-month benchmark.

International Reserves
(months of next year's imports)



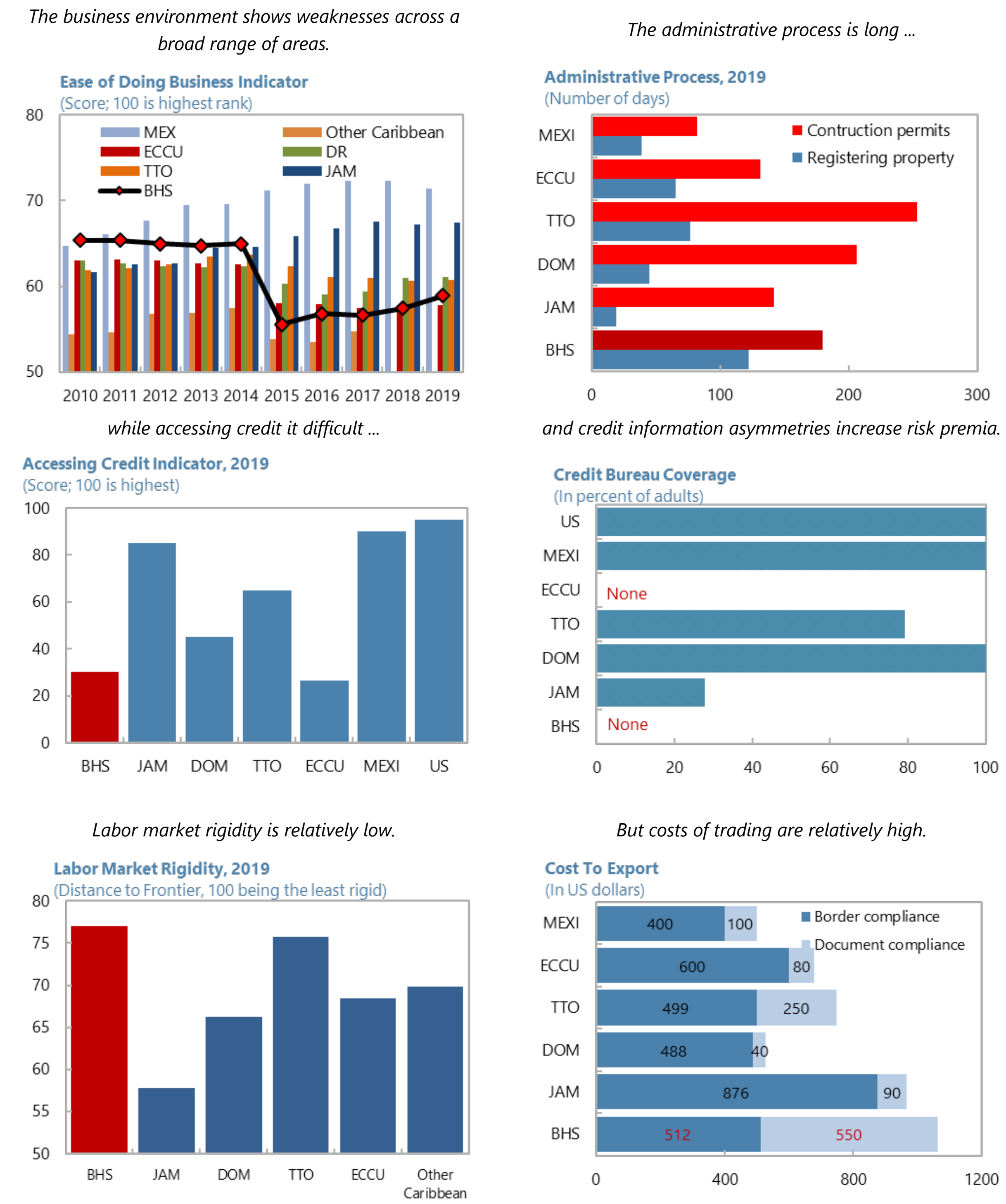
However, external public sector debt declined.

External Public Debt
(percent of GDP)



Sources: CBOB, INS, IMF International Financial Statistics, the World Bank's Doing Business Database, and IMF staff calculations.

Figure 5. The Bahamas: Doing Business Indicators



Sources: The World Bank's Doing Business Database and IMF staff calculations.
Note: BHS: Bahamas, BLZ: Belize, DOM: Dominica, ECCU: Eastern Caribbean Currency Union, JAM: Jamaica, Mexi: Meixco City, SUR: Suriname, TTO: Trinidad and Tobago.

Table 1. The Bahamas: Selected Social and Economic Indicators

I. Social Indicators

GDP (US$ millions), 2018	12,425	Poverty rate (percent), 2013	12.8
GDP per capita (US$), 2018	32,997	Unemployment rate (percent), Nov 2018	10.7
Population (thousands), 2018	377	Infant mortality rate (per 1,000 live births), 2016	9
Life expectancy at birth (years), 2018	75.7	Human development index (rank), 2018	54
Adult literacy rate, 15 & up (percent), 2007	96		

II. Economic Indicators

	Average						Projections					
	1991-2018	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	(Annual percentage changes, unless otherwise indicated)											
Real sector												
Real GDP	1.3	0.7	0.6	0.4	0.1	1.6	1.8	1.7	1.5	1.5	1.5	1.5
Nominal GDP	3.3	3.3	7.7	1.6	1.8	2.3	2.4	3.6	3.3	3.4	3.4	3.4
GDP deflator	1.9	2.6	7.0	1.1	1.7	0.7	0.6	1.8	1.8	1.8	1.8	1.9
Consumer price index (annual average)	2.1	1.2	1.9	-0.3	1.6	2.2	1.6	2.4	2.3	2.3	2.3	2.2
Consumer price index (end of period)	2.0	0.2	2.0	0.8	1.8	2.0	2.4	2.4	2.3	2.3	2.2	2.2
Unemployment rate (in percent)	11.1	14.6	13.4	12.2	10.1	10.7	9.0	9.0	8.9	8.8	8.7	8.6
Saving rate (percent of GDP)	19.8	16.2	14.1	20.5	13.4	7.5	10.9	12.5	14.5	15.9	17.6	18.9
Investment rate (percent of GDP)	28.1	33.6	26.2	26.4	26.3	23.9	23.0	22.9	23.5	23.7	23.8	23.9
Financial sector												
Credit to the nonfinancial public sector	10.4	4.0	7.7	12.3	-3.8	6.6	5.3	2.5	0.8	0.4	0.3	0.3
Credit to the private sector	4.9	-2.8	-1.1	-2.0	-3.0	-1.5	1.0	1.5	2.0	2.5	3.0	3.0
Broad money	5.6	1.2	-0.3	8.7	1.5	-0.8	2.4	3.6	3.3	3.4	3.4	3.4
External sector												
Exports of goods and services	3.6	-1.4	-8.7	18.9	-1.4	11.8	8.2	6.4	5.3	5.0	5.0	5.0
Of which: Travel receipts (gross)	3.8	1.0	3.0	29.3	-2.6	12.0	8.5	5.5	4.7	4.5	4.3	4.0
Imports of goods and services	4.9	5.0	-16.0	5.6	11.5	11.5	2.0	2.2	2.3	2.4	2.5	2.5
	(In percent of GDP, unless otherwise indicated)											
Central government 1/												
Revenue and grants	13.3	13.5	15.0	16.3	17.2	16.6	19.4	19.7	19.8	19.8	19.9	19.9
Expenditure	15.7	17.9	18.8	18.9	22.7	20.0	21.7	21.1	20.6	20.4	20.4	20.4
Expense	13.9	15.6	16.3	17.3	19.4	17.7	19.6	19.0	18.4	18.2	18.1	18.1
Net acquisition of nonfinancial assets	1.8	2.3	2.4	1.6	3.3	2.3	2.1	2.2	2.2	2.3	2.3	2.3
Overall balance	-2.4	-4.4	-3.8	-2.6	-5.5	-3.4	-2.3	-1.5	-0.8	-0.6	-0.5	-0.5
Primary balance	-0.7	-2.5	-1.7	-0.3	-3.3	-0.8	0.4	1.1	1.7	1.9	1.9	1.8
Central government debt	29.2	48.1	49.7	50.4	54.4	63.3	63.1	61.9	60.0	58.5	57.0	55.7
External sector												
Current account balance	-5.7	-17.4	-12.0	-6.0	-12.9	-16.4	-12.2	-10.3	-9.0	-7.7	-6.2	-5.0
Change in NIR (increase -) 2/	-0.4	-0.4	-0.2	-0.8	-4.2	1.8	-0.4	-0.2	-0.9	-0.7	-0.3	-0.1
Central government external debt	16.1	14.4	14.0	14.6	21.5	20.9	21.3	20.8	20.3	19.8	19.2	18.8
Memorandum items												
Gross international reserves												
(End of period; millions of U.S. dollars)	552	788	812	904	1,417	1,196	1,250	1,275	1,399	1,500	1,546	1,559
(In months of next year's G&S imports)	1.7	2.2	2.2	2.2	3.1	2.5	2.6	2.6	2.8	2.8	2.9	2.9
External debt-service ratio												
(in percent of exports of G&S)	6.4	15.9	5.7	9.7	20.5	9.1	19.5	8.9	6.6	9.2	5.2	8.8
GDP (in millions of Bahamian dollars)		10,913	11,752	11,938	12,150	12,425	12,724	13,178	13,618	14,075	14,550	15,046
Output gap (percent)		-1.1	-1.0	-1.1	-1.8	-1.1	-0.4	0.0	0.0	0.0	0.0	0.0

Sources: Central Bank of The Bahamas; Department of Statistics; Ministry of Finance; UNDP Human Development Report; and Fund staff

1/ The data refer to fiscal years ending on June 30.

2/ Net International Reserves.

Table 2. The Bahamas: Operations of the Central Government 1/

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
						Projections					
(In millions of Bahamian dollars)											
Revenue	**1,451**	**1,702**	**1,930**	**2,070**	**2,041**	**2,438**	**2,545**	**2,649**	**2,743**	**2,850**	**2,945**
Tax revenue	1,246	1,500	1,676	1,841	1,836	2,221	2,315	2,408	2,493	2,591	2,677
Taxes on international trade	595	578	506	584	546	583	577	571	564	578	592
Tourism taxes	170	172	135	136	143	147	153	160	166	173	180
Other taxes	489	532	407	483	466	537	581	618	650	679	705
Value added tax (VAT)		219	628	638	681	954	1,005	1,060	1,112	1,161	1,200
Other revenue	205	201	253	229	205	217	230	241	251	260	268
Expenditure	**1,927**	**2,130**	**2,240**	**2,731**	**2,457**	**2,729**	**2,739**	**2,761**	**2,826**	**2,922**	**3,018**
Expense	1,678	1,853	2,055	2,339	2,181	2,461	2,456	2,464	2,514	2,598	2,679
Wages and salaries	624	640	665	694	697	701	703	713	729	750	776
Goods and services	308	330	341	556	429	520	522	523	535	553	572
Interest payments	212	233	275	268	314	347	342	339	342	341	338
Subsidies and transfers 2/	533	650	774	821	741	893	889	889	908	953	993
Capital expenditure	250	277	185	392	277	268	282	298	312	325	339
Overall balance	**-477**	**-428**	**-310**	**-661**	**-416**	**-291**	**-194**	**-112**	**-83**	**-72**	**-73**
Net incurrence of liabilities	**477**	**428**	**310**	**661**	**416**	**291**	**194**	**112**	**83**	**72**	**73**
Domestic	50	296	124	656	-457	233	155	90	66	58	59
Foreign	426	133	186	5	874	58	39	22	17	14	15
(In percent of GDP)											
Revenue	**13.5**	**15.0**	**16.3**	**17.2**	**16.6**	**19.4**	**19.7**	**19.8**	**19.8**	**19.9**	**19.9**
Tax revenue	11.6	13.2	14.2	15.3	14.9	17.7	17.9	18.0	18.0	18.1	18.1
Taxes on international trade	5.5	5.1	4.3	4.9	4.4	4.6	4.5	4.3	4.1	4.0	4.0
Tourism taxes	1.6	1.5	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Other taxes	4.6	4.7	3.4	4.0	3.8	4.3	4.5	4.6	4.7	4.7	4.8
Value added tax (VAT)		1.9	5.3	5.3	5.5	7.6	7.8	7.9	8.0	8.1	8.1
Other revenue	1.9	1.8	2.1	1.9	1.7	1.7	1.8	1.8	1.8	1.8	1.8
Expenditure	**17.9**	**18.8**	**18.9**	**22.7**	**20.0**	**21.7**	**21.1**	**20.6**	**20.4**	**20.4**	**20.4**
Expense	15.6	16.3	17.3	19.4	17.7	19.6	19.0	18.4	18.2	18.1	18.1
Wages and salaries	5.8	5.6	5.6	5.8	5.7	5.6	5.4	5.3	5.3	5.2	5.2
Goods and services	2.9	2.9	2.9	4.6	3.5	4.1	4.0	3.9	3.9	3.9	3.9
Interest payments	2.0	2.1	2.3	2.2	2.6	2.8	2.6	2.5	2.5	2.4	2.3
Subsidies and transfers 2/	5.0	5.7	6.5	6.8	6.0	7.1	6.9	6.6	6.6	6.7	6.7
Capital expenditure	2.3	2.4	1.6	3.3	2.3	2.1	2.2	2.2	2.3	2.3	2.3
Overall balance	**-4.4**	**-3.8**	**-2.6**	**-5.5**	**-3.4**	**-2.3**	**-1.5**	**-0.8**	**-0.6**	**-0.5**	**-0.5**
Net incurrence of liabilities	**4.4**	**3.8**	**2.6**	**5.5**	**3.4**	**2.3**	**1.5**	**0.8**	**0.6**	**0.5**	**0.5**
Domestic	0.5	2.6	1.0	5.4	-3.7	1.9	1.2	0.7	0.5	0.4	0.4
Foreign	4.0	1.2	1.6	0.0	7.1	0.5	0.3	0.2	0.1	0.1	0.1
Memorandum items											
Primary balance (In millions of B$)	-265	-195	-35	-393	-103	56	148	226	259	268	265
In percent of GDP	-2.5	-1.7	-0.3	-3.3	-0.8	0.4	1.1	1.7	1.9	1.9	1.8
Central government debt											
(In millions of B$) (FY)	5,160	5,637	5,965	6,550	7,773	7,934	8,011	8,038	8,104	8,163	8,236
(In percent of GDP)	48.1	49.7	50.4	54.4	63.3	63.1	61.9	60.0	58.5	57.0	55.7
Central government debt in FRL											
(In millions of B$) (FY) 3/	5,160	5,637	5,965	6,550	7,243	7,534	7,728	7,840	7,923	7,996	8,069
(In percent of GDP)	48.1	49.7	50.4	54.4	58.9	59.9	59.7	58.5	57.2	55.9	54.5
Nominal GDP (In millions of B$) (FY)	10,738	11,333	11,845	12,044	12,287	12,574	12,951	13,398	13,847	14,313	14,798

Sources: Ministry of Finance; and Fund staff projections.

1/ Fiscal year ends June 30.

2/ Includes a reclassification of capital transfers to public entities for about 1 percent of GDP into current transfers.

3/ Excludes payment arrears that were accumulated in the past administrations and promissory notes for the resolution of Bank of The Bahamas.

Table 3. The Bahamas: Balance of Payments

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
						Projections					
	(In millions of U.S. dollars)										
Current account balance	**-1,898**	**-1,415**	**-711**	**-1,570**	**-2,040**	**-1,548**	**-1,359**	**-1,228**	**-1,091**	**-903**	**-753**
Goods (trade balance)	-2,450	-2,427	-2,150	-2,538	-2,652	-2,666	-2,686	-2,705	-2,731	-2,753	-2,758
Domestic exports	549	379	357	401	424	491	559	619	676	740	815
Domestic imports	-2,977	-2,790	-2,497	-2,925	-3,057	-3,138	-3,224	-3,303	-3,386	-3,471	-3,549
Oil	-481	-332	-309	-400	-526	-474	-487	-487	-490	-509	-531
Capital goods	-720	-615	-669	-770	-775	-805	-827	-839	-850	-846	-852
Other domestic imports	-1,776	-1,843	-1,518	-1,755	-1,756	-1,859	-1,911	-1,977	-2,046	-2,116	-2,166
Other net exports	-22	-16	-11	-13	-19	-19	-20	-21	-21	-22	-23
Services	991	1,461	1,564	1,384	1,376	1,631	1,821	1,969	2,114	2,257	2,392
Travel (net)	2,105	2,299	2,292	2,136	2,558	2,692	2,826	2,963	3,098	3,236	3,383
Travel (credit)	2,317	2,537	2,622	2,507	2,960	3,110	3,261	3,415	3,567	3,721	3,887
Travel (debit)	-212	-238	-329	-371	-402	-417	-435	-452	-468	-486	-504
Other services	-1,114	-838	-728	-752	-1,182	-1,061	-1,005	-994	-985	-979	-992
Income and transfers	-439	-449	-125	-416	-764	-513	-493	-492	-474	-407	-387
Capital and financial account	**1,944**	**1,439**	**802**	**2,108**	**1,823**	**1,602**	**1,384**	**1,352**	**1,192**	**950**	**766**
Capital transfers	-9	-19	-14	-26	-21	-21	-22	-23	-23	-24	-25
Long-term public sector	500	104	219	825	-53	311	45	260	-105	83	-130
Commercial banks' NFA	-162	30	-306	26	6	-2	2	3	9	1	-3
Foreign direct investment	251	76	390	461	486	546	555	572	580	599	621
Other private capital 1/	1,363	1,248	513	822	1,405	768	803	540	732	290	302
Overall balance	**46**	**24**	**92**	**513**	**-222**	**54**	**25**	**124**	**101**	**47**	**13**
Change in NIR (increase -) 2/	**-46**	**-24**	**-92**	**-513**	**222**	**-54**	**-25**	**-124**	**-101**	**-47**	**-13**
	(In percent of GDP)										
Current account balance	**-17.4**	**-12.0**	**-6.0**	**-12.9**	**-16.4**	**-12.2**	**-10.3**	**-9.0**	**-7.7**	**-6.2**	**-5.0**
Goods (trade balance)	-22.5	-20.7	-18.0	-20.9	-21.3	-20.9	-20.4	-19.9	-19.4	-18.9	-18.3
Domestic exports	5.0	3.2	3.0	3.3	3.4	3.9	4.2	4.5	4.8	5.1	5.4
Domestic imports	-27.3	-23.7	-20.9	-24.1	-24.6	-24.7	-24.5	-24.3	-24.1	-23.9	-23.6
Oil	-4.4	-2.8	-2.6	-3.3	-4.2	-3.7	-3.7	-3.6	-3.5	-3.5	-3.5
Capital goods	-6.6	-5.2	-5.6	-6.3	-6.2	-6.3	-6.3	-6.2	-6.0	-5.8	-5.7
Other domestic imports	-16.3	-15.7	-12.7	-14.4	-14.1	-14.6	-14.5	-14.5	-14.5	-14.5	-14.4
Other net exports	-0.2	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Services	9.1	12.4	13.1	11.4	11.1	12.8	13.8	14.5	15.0	15.5	15.9
Travel (net)	19.3	19.6	19.2	17.6	20.6	21.2	21.4	21.8	22.0	22.2	22.5
Travel (credit)	21.2	21.6	22.0	20.6	23.8	24.4	24.7	25.1	25.3	25.6	25.8
Travel (debit)	-1.9	-2.0	-2.8	-3.0	-3.2	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3
Other services	-10.2	-7.1	-6.1	-6.2	-9.5	-8.3	-7.6	-7.3	-7.0	-6.7	-6.6
Income and transfers	-4.0	-3.8	-1.0	-3.4	-6.2	-4.0	-3.7	-3.6	-3.4	-2.8	-2.6
Capital and financial account	**17.8**	**12.2**	**6.7**	**17.3**	**14.7**	**12.6**	**10.5**	**9.9**	**8.5**	**6.5**	**5.1**
Capital transfers	-0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Long-term public sector	4.6	0.9	1.8	6.8	-0.4	2.4	0.3	1.9	-0.7	0.6	-0.9
Commercial banks' NFA	-1.5	0.3	-2.6	0.2	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Foreign direct investment	2.3	0.6	3.3	3.8	3.9	4.3	4.2	4.2	4.1	4.1	4.1
Other private capital 1/	12.5	10.6	4.3	6.8	11.3	6.0	6.1	4.0	5.2	2.0	2.0
Overall balance	**0.4**	**0.2**	**0.8**	**4.2**	**-1.8**	**0.4**	**0.2**	**0.9**	**0.7**	**0.3**	**0.1**
Change in NIR (increase -) 2/	**-0.4**	**-0.2**	**-0.8**	**-4.2**	**1.8**	**-0.4**	**-0.2**	**-0.9**	**-0.7**	**-0.3**	**-0.1**
Memorandum items											
Gross international reserves											
(End of period; millions of U.S. dollars)	788	812	904	1,417	1,196	1,250	1,275	1,399	1,500	1,546	1,559
(In months of next year's G&S imports)	2.2	2.2	2.2	3.1	2.5	2.6	2.6	2.8	2.8	2.9	2.9
Nominal GDP (millions of U.S. dollars)	10,913	11,752	11,938	12,150	12,425	12,724	13,178	13,618	14,075	14,550	15,046

Sources: Central Bank of The Bahamas; Department of Statistics; and Fund staff projections.
1/ Includes errors and omissions.
2/ Net International Reserves

Table 4. The Bahamas: Summary Accounts of the Central Bank and the Financial System

						Projections		
	2014	2015	2016	2017	2018	2019	2020	2021
	(In millions of Bahamian dollars, end of period)							
Central Bank								
Gross international reserves	788	812	904	1,417	1,196	1,250	1,275	1,399
Net domestic assets	193	168	388	32	56	32	53	-27
Credit to nonfinancial public sector (net)	504	485	713	381	436	420	449	377
Of which: Central Government	521	494	717	390	504	454	404	354
Other	-310	-317	-325	-348	-380	-388	-396	-404
Reserve money	981	980	1,292	1,450	1,252	1,282	1,327	1,372
Currency held by the private sector	375	389	426	439	460	471	488	504
Liabilities with financial institutions	606	591	866	1,011	792	811	840	868
Financial system								
Net foreign assets	286	280	679	1,153	938	994	1,017	1,138
Of which : Commercial banks and OFIs	-502	-532	-225	-265	-257	-256	-258	-261
Net domestic assets	6,105	6,094	6,252	5,885	6,044	6,156	6,388	6,514
Credit to nonfinancial public sector, net	2,206	2,376	2,668	2,566	2,735	2,879	2,952	2,976
Central Government, net	2,021	2,198	2,551	2,383	2,539	2,683	2,756	2,780
Credit to private sector	6,367	6,300	6,171	5,983	5,893	5,952	6,042	6,162
Other	-2,468	-2,583	-2,587	-2,664	-2,585	-2,675	-2,605	-2,624
Liabilities to the private sector (broad money)	6,390	6,374	6,930	7,037	6,982	7,150	7,405	7,652
Money	1,996	2,071	2,461	2,654	2,729	2,795	2,895	2,992
Currency	233	247	281	293	311	318	329	340
Demand deposits	1,763	1,825	2,180	2,361	2,419	2,477	2,566	2,651
Quasi-money	4,394	4,303	4,470	4,383	4,252	4,355	4,510	4,661
	(Change in percent of liabilities to the private sector at the beginning of the period)							
Net foreign assets	3.8	-0.1	6.2	6.8	-3.0	0.8	0.3	1.6
Net domestic assets	-2.6	-0.2	2.5	-5.3	2.3	1.6	3.2	1.7
Credit to nonfinancial public sector	1.4	2.7	4.6	-1.5	2.4	2.1	1.0	0.3
Credit to private sector	-2.9	-1.1	-2.0	-2.7	-1.3	0.8	1.2	1.6
Liabilities to private sector (broad money)	1.2	-0.3	8.7	1.5	-0.8	2.4	3.6	3.3
Money	5.6	1.2	6.1	2.8	1.1	0.9	1.4	1.3
Quasi-money	-4.5	-1.4	2.6	-1.2	-1.9	1.5	2.2	2.0
	(Annual percentage change)							
Net domestic assets	-2.6	-0.2	2.6	-5.9	2.7	1.9	3.8	2.0
Credit to nonfinancial public sector	4.0	7.7	12.3	-3.8	6.6	5.3	2.5	0.8
Credit to private sector	-2.8	-1.1	-2.0	-3.0	-1.5	1.0	1.5	2.0
Liabilities to private sector (broad money)	1.2	-0.3	8.7	1.5	-0.8	2.4	3.6	3.3
Money	21.6	3.8	18.8	7.9	2.8	2.4	3.6	3.3
Quasi-money	-6.0	-2.1	3.9	-1.9	-3.0	2.4	3.6	3.3

Sources: Central Bank of The Bahamas; and Fund staff projections.

Annex I. Risk Assessment Matrix[1]

Potential Deviations from Baseline				
Source of Risk	**Up/ Downside**	**Relative Likelihood[1]**	**Impact[1]**	**Policy Response**
Sharp tightening of global financial conditions. Higher-than-expected inflation in the U.S. leads to market expectations of tighter U.S. monetary policy.	↓	Low	M	Structural reforms to increase competitiveness and fiscal consolidation to strengthen fiscal and external buffers.
Weaker-than-expected global growth: • Significant US slowdown and its spillovers • Structurally weak growth in key advanced economies and large emerging markets.	↓ ↓	Medium High	H H	Structural reforms to increase competitiveness and fiscal consolidation to strengthen fiscal and external buffers.
Large swings in energy prices	↓	Medium	M	Accelerate the pace of energy reform to build price buffer and reduce reliance on fossil fuels.
Further pressure on the offshore sector. Evolving tax environment, continued negative listings, or high-visibility cases bear reputational risks and can put pressure on CBRs.	↓	High	H	Strengthen AML/CFT effectiveness and tax transparency, ensure effective implementation. Systematically monitor CBRs. Effectively communicate reforms to address risk perception.
Natural disasters	↓	High	H	Enhance ex-ante preparedness and risk reduction strategies. Invest in resilient infrastructure.
Sustained credit contraction would drag the recovery and lower medium-term growth	↓	Medium	M	Accelerate financial sector reforms to revive credit growth.
Higher-than-expected FDI flows	↑	Low	H	Structural reforms to increase competitiveness and improve the regulatory environment will help attract new FDI.
Delays in fiscal consolidation or in implementing structural reforms	↓	Medium	H	Enhance communication strategy explaining factors behind the delay and implement corrective measures swiftly.
1/ Low (L), Medium (M), High (H).				

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

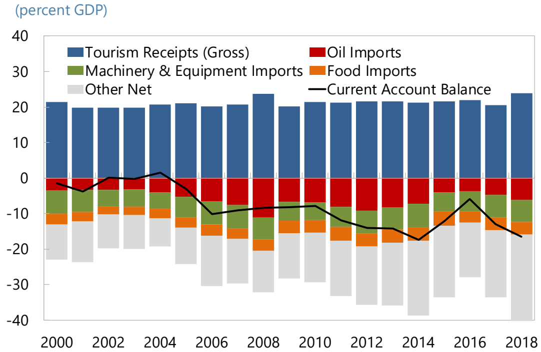
Annex II. External Sector Assessment

Staff assesses the 2018 external position as weaker than the level suggested by fundamentals and desired policy settings. Reserves fell in 2018, reflecting a higher oil import bill and a public-sector entity's refinancing of foreign currency debt domestically. As a result, international reserves at year-end fell below some traditional adequacy metrics. Vulnerabilities remain, including from exposure to natural disasters, weak competitiveness, and significant structural bottlenecks. In the context of continued strong commitment to the exchange rate peg, structural reforms alongside continued fiscal consolidation and accumulation of foreign exchange reserves are critical to strengthen external buffers.

A. Context and Recent Developments

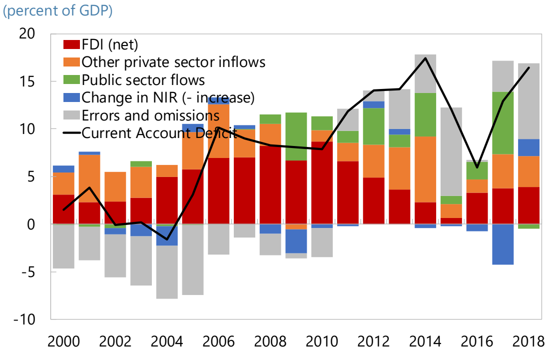
1. **The Bahamas typically runs large current account deficits owing to its relatively narrow economic base and heavy dependence on imports and tourism.** As a small open service economy, it relies heavily on imports to meet its infrastructure and development needs. Goods imports have steadily increased to nearly eight times that of domestic exports, resulting in trade deficits averaging around 20 percent of GDP over the past decade. Machinery and equipment and manufactured goods imports—a sizeable portion of which constitute inputs to investment and infrastructure projects—comprise about one third of imports, while oil and food imports amount to another 30 percent. On the services side, net inflows, mainly tourism receipts, have averaged about 10 percent of GDP. Net income transfers abroad, reflecting profit repatriation and dividend payments on tourism investments, have averaged 2 percent. The Bahamas' current account deficit has thus ranged between 8 and 17 percent of GDP during the past decade, with financing concentrated in foreign direct investment (FDI) and other private sector inflows.

Current Account Balance
(percent GDP)



Sources: CBOB and IMF staff estimates.

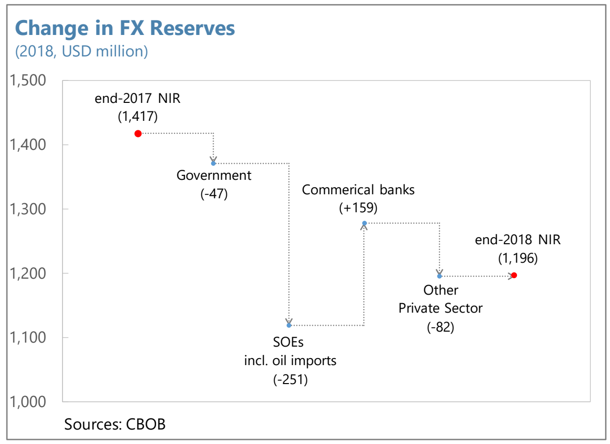
Current Account Balance and Capital Flows
(percent of GDP)



Sources: CBOB and IMF staff estimates.

2. **Despite the boost to tourism, the current account deficit is estimated to have widened in 2018.** This reflected in part the negative impact on the trade balance from rising oil prices, with the oil import bill rising by over 30 percent in line world oil prices. Imports of other services also increased significantly, by almost 50 percent, most of it related to the opening of the Baha Mar resort. At the same time, interest and dividend payments abroad by commercial banks and private sector companies increased almost 90 percent to over 4 percent of GDP. These factors are estimated to have more than offset the positive impact of higher tourism receipts, which increased by around 12 percent.

3. **Reserves declined during the year**. The authorities boosted reserves significantly in 2017 through a US$750 million external sovereign bond issuance, amounting to around 6.2 percent of GDP in that year. However, reserves declined in 2018 by around US$220 million, reflecting to a large extent SOE operations, as oil imports increased by US$125 million from 2017 and a public-sector entity refinanced about US$70 million of foreign currency debt with domestic currency. Commercial banks in particular contributed positively to the reserve dynamics.



4. **The external accounts are expected to strengthen gradually over the medium-term.** Oil and other commodity prices are expected to decline modestly, which should help improve the current account over the medium-term. At the same time, while the growth impulse from Baha Mar is temporary, tourism receipts are expected to continue strengthening as FDI projects currently in the pipeline come on stream and new ones come on board. Against this, the recovery of the world economy is expected to slow down in 2019 and beyond, adversely affecting demand for exports of goods and services. Net income outflows are expected to continue as investors collect dividends on tourism investments. On balance, the current account deficit is projected to gradually converge to around 5 percent of GDP over the medium term.

B. External Stability Assessments

5. **Model-based estimates point to an overvaluation of the real effective exchange rate in 2018 and a weaker external position than suggested by fundamentals and desirable policy settings**. The findings are based on two panel regressions of the current account and the real effective exchange rate, respectively, that estimate 'norm' values consistent with economic fundamentals and desirable policy settings.[1] Results from these EBA-lite regressions approaches point to an overvalued currency in real effective terms, although the two models differ significantly on the magnitude of overvaluation, with estimates ranging between 7.6 and 19.5 percent.

The Current Account (CA) Model

6. **The CA model is limited in its ability to analyze small countries heavily dependent on tourism income and subject to irregular, large-scale FDI projects with high import content.** The standard model does not effectively capture potentially strong and sustained future tourism inflows that justify relatively large infrastructure-driven CA deficits in the near-term. To correct for this,

[1] The external sustainability approach is not used owing to lack of official net international investment position data. The External Balance Assessment (EBA)-lite approach uses an estimate of the net foreign asset position (NFA) position derived from capital account flows and estimates of external indebtedness.

FDI-related goods and services imports are excluded, leading to an adjusted CA deficit of 8.0 percent of GDP in 2018.[2]

Real Effective Exchange Rate (REER) Assessment
(percent)

	CA Approach (adjusted)	REER Approach
Actual CA 1/	-8.0	
Cyclically adjusted CA	-8.0	
CA norm	-2.8	
Cyclically adjusted CA norm	-2.9	
CA gap	-5.2	
o/w Policy gap	-1.1	
Elasticity	-0.27	
REER gap	**19.5**	**7.6**

1/ Adjusted to exclude FDI-related goods and service imports.

7. **After adjusting for these factors, the cyclically-adjusted CA balance and cyclically-adjusted norm are estimated at -8.0 and -2.9 percent of GDP, respectively.** The resulting CA gap is 5.2 percent of GDP, after accounting for desirable macroeconomic policy settings, where the policies include continued fiscal consolidation and accumulation of foreign exchange reserves, increased financial deepening, and a modest relaxation of capital control measures. Higher fiscal deficits and tighter capital flow management measures than desirable over the medium term contribute to policy gaps that generate a higher current account deficit relative to the norm. This is offset in part by a stronger buildup of foreign exchange reserves and somewhat lower levels and growth rates of private sector credit than staff judges to the optimal. Overall, the model suggests that, in 2018, policy gaps contributed about 1.1 percent of GDP to the estimated current account gap of 5.2 percent of GDP. The results of the CA model thus indicate that the external position is weaker than the level suggested by fundamentals and desired policy settings. Using standard elasticities, the model suggests an overvaluation of 19 percent in 2018, however, it is important to emphasize the poor fit of the model and a considerably tighter current account norm estimate relative to previous years.[3]

The Real Effective Exchange Rate Index (I-REER) Model

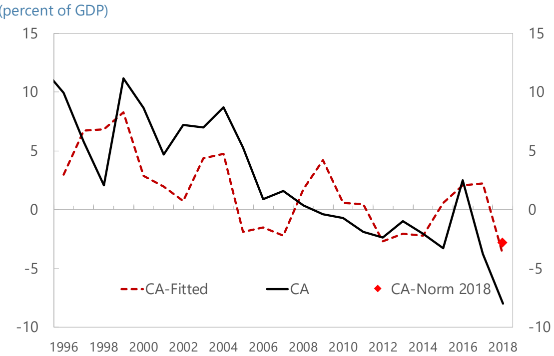
8. **The real effective exchange rate model suggests a gap in 2018 of about 8 percent.** The model finds that the average REER for 2018 was 7.6 percent stronger than the level deemed consistent with fundamentals and desirable policy settings. Following an appreciation of the Bahamian dollar of 3¼ percent in 2015 in real effective terms, attributed in large part to the appreciation of the U.S. dollar, the (period average) real effective exchange rate depreciated by 1½ percent from 2015 to 2018.

[2] The adjustment assumes that 80 percent of capital goods imports and 100 percent of construction services imports are related to FDI.

[3] See https://www.imf.org/external/np/res/eba/data.htm for the 2018 refinements to the external balance assessment methodology.

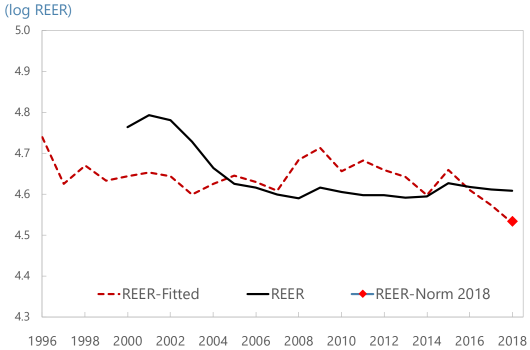
The REER in 2018 was roughly at the level that it was in 2010. The results of the I-REER model thus indicate a moderate overvaluation of the real effective exchange rate, although – as with the case of the CA model – there is a poor fit with the actual data.

External Stability Assessment, Current Account Model
(percent of GDP)



Source: IMF staff estimates.

External Sector Assessment: I-REER Model
(log REER)



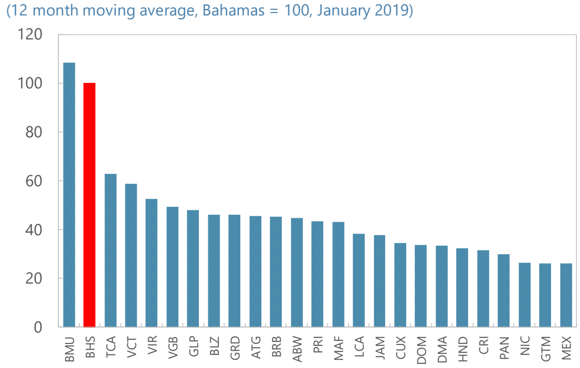
Source: IMF staff estimates.

9. **On balance, staff assesses the external position to be weaker than the level suggested by fundamentals and desired policy settings.** This reflects the relatively poor fit of both models, particularly in 2018, the lack of data on the IIP position that could further inform the assessment, as well as the presence of exchange control measures that have been in place since 1972 and that allow the management of capital flows while maintaining the peg to the U.S. dollar.

C. Cost and Structural Competitiveness

10. **Several factors constrain the cost competitiveness of The Bahamas**. Data from the (IMF-compiled) "Week at the Beach" index for January 2019 show that the Bahamas is the second most expensive tourist destination, after Bermuda, among key tourist destinations in Mexico, Central America, and the Caribbean. This reflects, to a large extent, elevated hotel costs as well as the cost of food and water.

Week at the Beach Index
(12 month moving average, Bahamas = 100, January 2019)



Sources: IMF Week at the Beach Index, TripAdvisor, Numbeo.

11. **Decisive structural reforms are needed to enhance competitiveness.** The main impediments to private sector expansion include high energy costs; skills mismatches and structural problems within the labor market; poor access to credit; and inefficiencies in government bureaucracy. Priorities for reform include:

- ***Advancing energy sector reforms:*** Reforms are important to prepare for natural disasters, improve reliability in generation and distribution, and reduce costs. To provide cleaner power generation and reduce costs, the state-owned Bahamas Power and Light (BPL) has a medium-term plan for switching from heavy oil to natural gas for power generation and is upgrading its electricity transmissions and distribution network. An internal restructuring is also underway, and BPL is considering issuing a bond to refinance about US$320 million in legacy debt at a lower rate.

- ***Lowering costs of transacting with the government:*** Lowering the administrative costs of doing business, and increasing the transparency associated with carrying out transactions with the public sector, are important elements of making the Bahamian economy more competitive. The *Government Digital Transformation to Strengthen Competitiveness Program (DTP)* aims at fostering the competitiveness of the economy by reducing the costs of conducting business with the government. This objective is expected to be achieved through (i) streamlining government procedures and making them available online to reduce the cost of government bureaucracy; (ii) increasing the use of information and communications technology in the public sector; and (iii) increasing transparency of government activities and strengthening auditing and control mechanisms. An Integrity Commission is also to be established with the objective of tackling corruption in the public sector.

- ***Enhancing access to finance:*** The absence of a credit bureau for households and the lack of a strong book-keeping tradition for businesses make private sector banks reluctant to lend due to the challenges of assessing borrowers' creditworthiness. The CBOB selected an operator for a private credit bureau, but it will take time to become fully operational. A Credit Risk Agency has also been established and is expected to become operational in 2020 to oversee the licensing of credit bureau establishments, including ensuring the adequacy and availability of individual credit information.

- ***Easing labor market bottlenecks:*** There is an urgent need to expand vocational and apprenticeship programs to help reduce skills mismatches and youth unemployment, and more broadly to improve the quality of education to boost human capital and support long-term employment. In this context the government is taking a five-pronged approach to education reform over five years: (i) expansion of pre-school enrollment rates to 100 percent in five years; (ii) revision of curricula throughout the education system; (iii) ongoing further training of teaching and administrative staff; (iv) digitalization and upgrading of technological infrastructure in schools; and (v) expansion of opportunities and funding for vocational training.

D. Reserve Adequacy

12. Standard reserve adequacy metrics give mixed signals about the adequacy of foreign exchange reserves for normal times:

Reserve Adequacy Metrics 1/

	2018	2019	Average 2020-2024
3 months (next year's goods and service Imports)	84	86	94
3 months (next year's non-FDI related goods imports)	97	99	107
20 percent of broad money (M2)	86	87	92
100 percent of Central Bank's demand liabilities	114	117	122
Short Term Debt	…	…	…
Risk-weighted measure	86	84	89
Revised risk-weighted measure	114	110	117

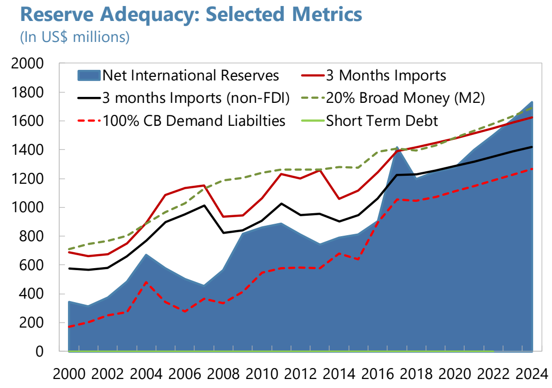
1/ 100 is a benchmark for reserves level adequacy.

- International reserves stood at US$1,196 million (2.5 months of next year's imports) at end-2018, below the traditional benchmark of 3 months of next year's imports of goods and services. If FDI-related goods and services imports are excluded, reserves stood at 2.9 months of next year's imports at end-2018.

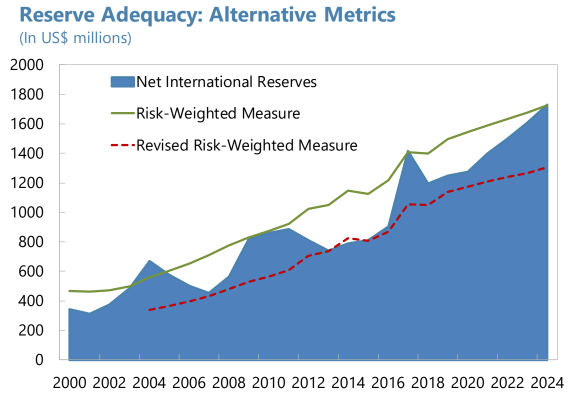
- International reserves stood at 114 percent of Central Bank liabilities but were below 20 percent of broad money (M2).

- Reserves stood at 86 percent of the level suggested by the Fund's risk-weighted metric, which attempts to measure the adequacy of reserves in avoiding crises and reducing their severity. The metric requires coverage against medium- and long-term external liabilities, in addition to coverage of short-term debt and broad money.

- However, accounting for the presence of exchange controls (ECs), the revised risk-weighted measure assesses reserve coverage at 1142 percent, within the recommended 100–150 percent range.



Sources: The Bahamian authorities and IMF staff calculations.



Sources: The Bahamian authorities and IMF staff calculations.

13. Going forward, improvements in external sector statistics are crucial for a better understanding of external sector sustainability and vulnerabilities. In particular, priority should be given to compiling data on the international investment position; improving the quality, coverage, and timeliness of data relating to the financial accounts; and moving to BPM6 as soon as possible.

Annex III. Public and External Sector Debt Sustainability Analysis

Central government debt continued to increase, owing in part to the recognition of payment arrears, reaching 63.3 percent of GDP in FY2017/18.[1] Reflecting recent consolidation efforts and ongoing reforms of the fiscal framework staff projects a gradual decline of government debt to 55.7 percent of GDP by FY2023/24. The debt sustainability heat map points to moderate risks to debt sustainability, with one pressure point being external financing requirements. Stress tests show debt vulnerabilities to natural disasters and the need to strengthen financial resilience.

1. **Debt stock and gross financing requirements.** In the FY 2017/18 (ending in June), central government debt increased to 63.3 percent of GDP, the highest value in two decades, and up from 54.4 a year earlier.[2] The increase is driven by the fiscal deficit (3.4 percent of GDP), the recognition of past payment arrears (2.9 percent) which resulted primarily from unfunded budgetary commitments, and the second promissory note for the settlement of the Bank of The Bahamas (1.3 percent).[3] The November 2018 Fiscal Strategy Report announced an arrears repayment schedule.[4] In FY2018/19, fiscal consolidation is advancing with the enactment of various revenue measures, narrowing the projected deficit to 2.3 percent of GDP. The recently enacted Fiscal Responsibility Law (FRL) provides a debt anchor and rules for the fiscal deficit and expenditure growth (Box 1), with transition timelines and an improved fiscal transparency framework that institutionalizes more frequent and in-depth reporting. Under the baseline scenario, which reflects continuation of the fiscal consolidation and implementation of the FRL, debt peaked in FY2017/18 and will decline to around 55.7 percent of GDP over the medium term. Gross financing needs are projected to decline slightly from 5.7 to 5.3 percent of GDP in the medium term, supported by the projected fiscal consolidation.

2. **Debt profile and vulnerabilities.** The government is developing a new debt management strategy, which aims to reduce the debt service burden and mitigate currency and maturity risks. Under the baseline scenario, the debt composition is expected to remain favorable. The foreign currency share of debt is projected to decrease to 31.4 percent of total debt in the medium term (from 33.9 percent in FY2017/18). Meanwhile, the share of short-term debt—all of which is denominated in domestic currency—is also projected to decline to 12.2 percent of total debt (from 12.9 percent). The combination of excess liquidity in the domestic banking sector and narrow set of alternative investment assets will continue to support the government short-term financing needs. Debt levels and gross financing needs are resilient against all types of shocks. Against the background of high current account deficits, external financing requirements have increased. On the other hand, the decline in the share of short-term debt to total debt mitigated the liquidity risk. Overall, the heat map points to moderate risks to debt sustainability.

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[1] GDP numbers have been converted from calendar to fiscal year using a linear projection.

[2] Due to the revisions of National Accounts, the government debt to GDP ratio decreased from the reported 57.2 percent in the 2018 Article IV to 54.4 percent.

[3] Payment arrears and the Promissory Notes issued to the Bank of The Bahamas are considered debt of the central government, explaining the difference to the FRL concept of debt.

[4] See ¶13 in the main text and *Fiscal Strategy Report*, http://www.bahamas.gov.bs/wps/wcm/connect/4b71f6ec-468b-4643-b65f-5e3602fc4eb3/Fiscal+Strategy+Report_November+2018.pdf?MOD=AJPERES

3. Realism of baseline assumptions. Staff projects real growth to average 1.6 percent over the medium term. Inflation is expected to remain low (2.2 percent), while the primary balance is projected to improve to 1.7 percent by the end of the forecast period, reflecting the authorities' recent consolidation efforts and the FRL targets. Past growth forecast errors are largely explained by a substantial revision to the national accounts in 2017, which showed lower growth than previously estimated, as well as large unexpected events such as natural disasters and temporary suspension of large FDI projects. Meanwhile, past projections for the primary balance appear to have been optimistic, while inflation turned out to be lower than expected.

4. Macro–fiscal stress test. Thanks to the fiscal consolidation over the past two years, macro-fiscal stress tests show robustness of the current fiscal situation. Staff simulated four shock scenarios: a real GDP growth shock, a primary balance shock, real interest rate shock, and real exchange rate shock.[5] Under all shocks, the debt-to-GDP ratio increases marginally by between 0.8 (real exchange rate shock) to 2.7 (real GDP growth shock) percentage points from the baseline of 55.7 percent at the end of projection period. The primary balance shock has relatively strong impact on the debt to revenue ratio in the short term. Gross financing requirements are sensitive to the real interest rate and would increase by 0.7 percentage point of GDP in FY2023/24 in the case of a shock. A combined macro–fiscal shock would raise debt to 64.5 percent of GDP, and gross financing requirements to 7.1 percent of GDP in FY2023/24.

5. Staff considered a natural disaster scenario with disaster preparation. The scenario is based on the impact of hurricane Matthew, which generated the largest damage to The Bahamas in the last three years. This translates into a temporary reduction of real GDP growth by 0.5 percent in FY2019/20 and FY2020/21, lower tax revenue by 2.2 percentage point of GDP for each of the years, and higher spending by 1.5 and 0.75 percentage points of GPD for FY2019/20 and 20/21, reflecting post-hurricane cleanup and reconstruction efforts. Moving to the simulation, staff moderated these parameters to reflect disaster preparation measures, namely the natural disaster relief fund (B$41 million), the contingent credit line with the Inter-American Development Bank (IDB) (US$100 million), and payout from the Caribbean Catastrophe Risk Insurance Facility (CCRIF) (US$35 million). The natural disaster relief fund and CCRIF insurance payout moderate the revenue loss by US$76 million (0.6 percent of GDP) in the first year. The swift disbursement under the contingent credit line (0.8 percent of GDP) buffers the impact on growth and lowers financing costs, reducing the growth shock by 0.2 and 0.15 percentage points for FY2019/20 and 20/21. Overall, despite the temporary nature of the growth shock and full use of buffers, government debt would still increase to 63.0 percent of GDP by FY2023/24, 7.4 percentage point higher than in the baseline.

6. External Debt.[6] The stock of public external debt decreased to 25.5 percent of GDP in 2018. This decline was mainly driven by the amortization of the central government external debt and the re-financing of external debt with domestic financing by one state-owned enterprise

[5] The four shocks include: 1) a one standard deviation reduction in real GDP growth, 2) a one-standard deviation increase in the primary deficit, 3) 485 basis points increase in projected interest rates from the average for the past 6 years, and 4) a 10-percent real exchange rate shock.

[6] External debt is defined as public sector external debt (central government and SOEs). Data on private-sector external debt is not available.

(SOE). Under the baseline scenario, external debt is projected to increase to 27.9 percent of GDP in 2019 before declining gradually to 25.9 percent of GDP by 2024. This projection is based on (i) the assumption that domestic refinancing of external SOE debt will continue (more than half of outstanding external SOE debt matures in 2019 and 2020), (ii) the state-owned electricity company's plans to reduce the issuance of external bonds, and (iii) the central government's continued shift from external to domestic financing. Bound test results suggest that the external public debt profile is moderately sensitive to shocks to the non-interest current account and real exchange rate. A permanent one-half standard deviation increase in the non-interest current account deficit beginning in 2020 would put the public external debt ratio on an increasing trajectory, reaching 35 percent of GDP by 2024. A permanent one-time 30 percent depreciation in real effective terms in 2020 would shift the external debt level up by around 12.25 percent of GDP relative to the baseline over the projection period.

Table 1. The Bahamas: Outstanding Stock of Public Debt[1/]

(Percent of GDP)

	FY2011/12	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18
Central government debt	**37.6**	**44.1**	**48.1**	**49.7**	**50.4**	**54.4**	**63.3**
External	8.0	9.9	13.9	14.1	14.8	14.6	21.5
Domestic	29.6	34.1	34.2	35.7	35.6	39.7	41.8
Of which: in foreign currency	0.0	0.0	0.6	0.0	0.0	0.0	0.0
Public corporations' debt	**11.8**	**13.1**	**12.7**	**13.6**	**13.9**	**12.9**	**13.0**
External	3.2	4.0	4.0	4.7	5.3	5.2	5.0
Domestic	8.7	9.0	8.7	8.9	8.6	7.8	8.0
Of which: in foreign currency	3.8	4.0	3.7	3.2	2.9	2.2	2.0
Total public sector	**49.4**	**57.1**	**60.8**	**63.3**	**64.3**	**67.3**	**76.2**
External	11.2	14.0	17.9	18.8	20.1	19.8	26.5
Domestic	38.3	43.1	42.9	44.6	44.2	47.5	49.8
Of which: in foreign currency	3.8	4.0	4.3	3.2	2.9	2.2	2.0
Consolidated public sector 2/	**42.8**	**50.5**	**54.5**	**57.5**	**59.0**	**62.2**	**71.3**
External	11.2	14.0	17.9	18.8	20.1	19.8	26.5
Domestic 2/	31.7	36.6	36.6	38.8	38.9	42.4	44.9
Of which: in foreign currency	3.8	4.0	4.3	3.2	2.9	2.2	2.0

Sources: Central Bank of The Bahamas; and IMF staff calculations.
1/ Fiscal year basis.
2/ Excludes central government debt holdings by public corporations.

Figure 1. The Bahamas: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(Percent of GDP unless otherwise indicated, fiscal year)

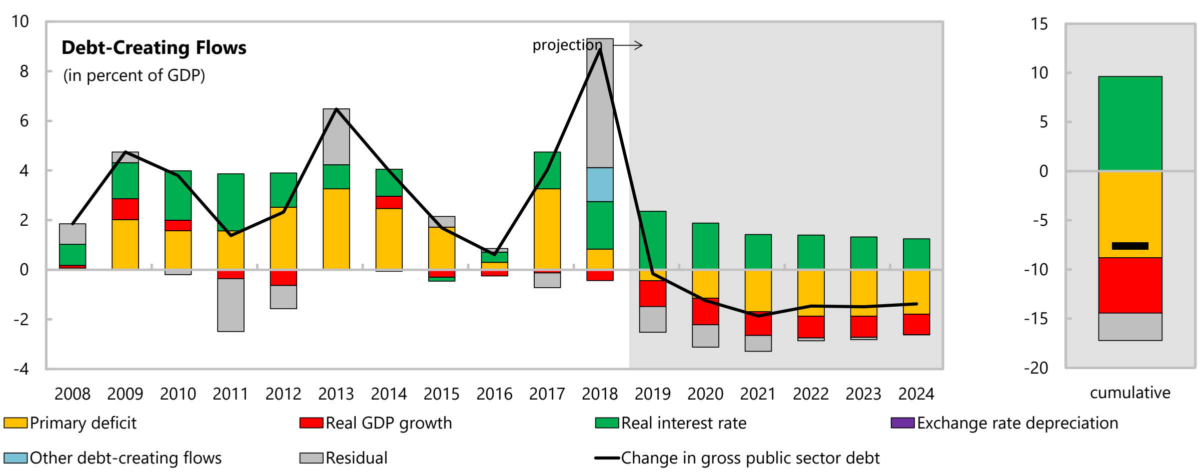
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2008-2016 [2/]	2017	2018	2019	2020	2021	2022	2023	2024
Nominal gross public debt	39.4	54.4	63.3	63.1	61.9	60.0	58.5	57.0	55.7
Public gross financing needs	2.3	4.3	5.9	5.7	5.4	4.2	3.8	4.7	5.3
Real GDP growth (in percent)	-0.2	0.3	0.8	1.7	1.7	1.6	1.5	1.5	1.5
Inflation (GDP deflator, in percent)	1.7	1.4	1.2	0.6	1.2	1.8	1.8	1.8	1.9
Nominal GDP growth (in percent)	1.5	1.7	2.0	2.3	3.0	3.5	3.3	3.4	3.4
Effective interest rate (in percent) [4/]	5.3	4.5	4.8	4.5	4.3	4.2	4.3	4.2	4.1

As of February 21, 2019		
Sovereign Spreads		
EMBIG (bp) 3/		306
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	Baa3	Baa3
S&Ps	BB+	BB+
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	3.0	4.0	8.9	-0.2	-1.2	-1.9	-1.5	-1.5	-1.4	-7.6	
Identified debt-creating flows	2.9	4.6	3.7	0.9	-0.3	-1.2	-1.3	-1.4	-1.4	-4.8	
Primary deficit	1.7	3.3	0.8	-0.4	-1.1	-1.7	-1.9	-1.9	-1.8	-8.8	0.4
Primary (noninterest) revenue and grants	13.9	17.2	16.6	19.4	19.7	19.8	19.8	19.9	19.9	118.4	
Primary (noninterest) expenditure	15.6	20.4	17.4	18.9	18.5	18.1	17.9	18.0	18.1	109.6	
Automatic debt dynamics [5/]	1.2	1.4	1.5	1.3	0.8	0.5	0.5	0.5	0.4	4.0	
Interest rate/growth differential [6/]	1.2	1.4	1.5	1.3	0.8	0.5	0.5	0.5	0.4	4.0	
Of which: real interest rate	1.1	1.5	1.9	2.4	1.9	1.4	1.4	1.3	1.2	9.6	
Of which: real GDP growth	0.0	-0.1	-0.4	-1.0	-1.1	-1.0	-0.9	-0.8	-0.8	-5.6	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization/Drawdown of Deposits (+ reduces financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Promissory note for bank resolution	0.0	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.1	-0.6	5.2	-1.0	-0.9	-0.6	-0.1	-0.1	0.0	-2.8	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

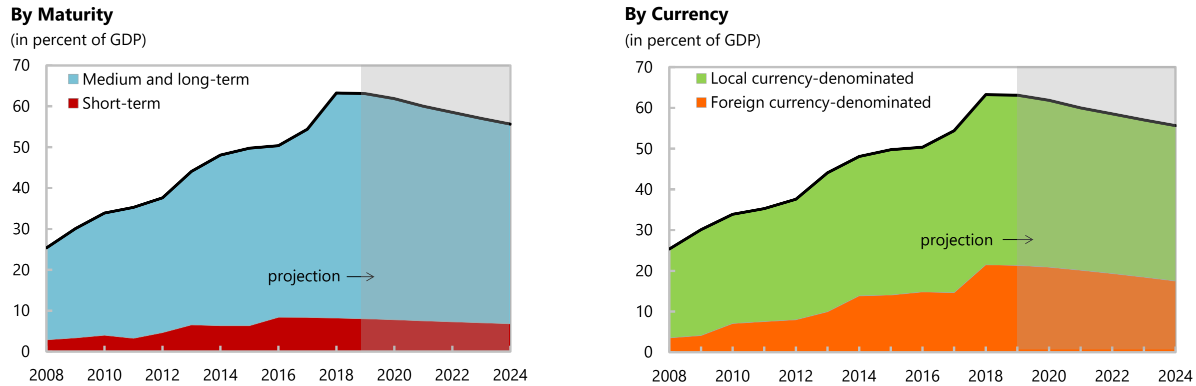
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

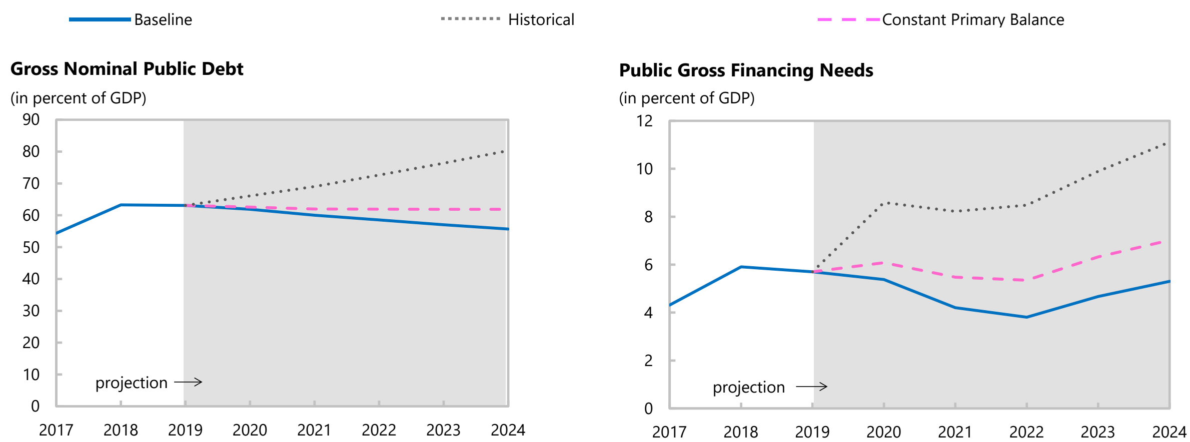
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. The Bahamas: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt



Alternative Scenarios



Underlying Assumptions

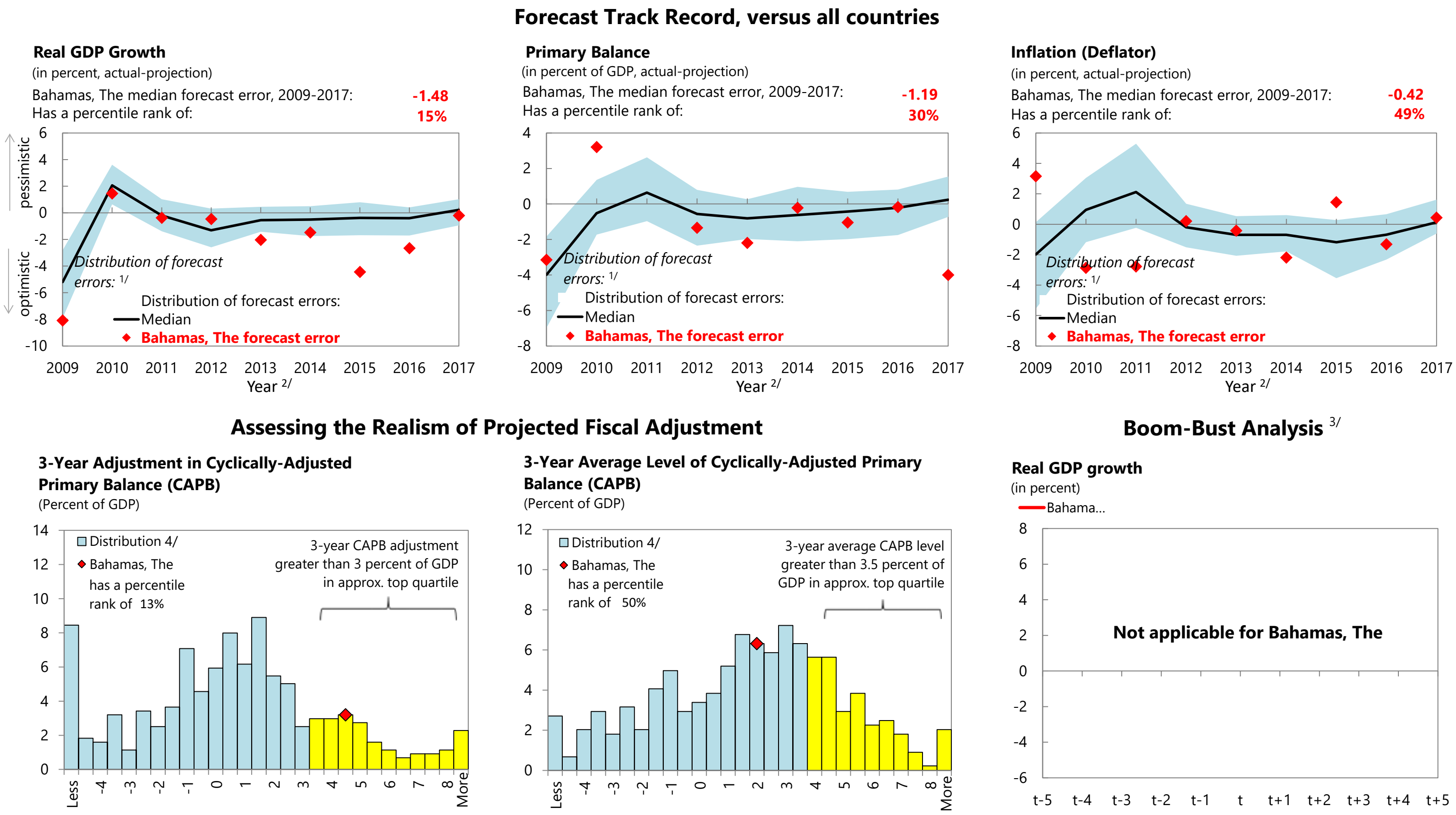
(in percent)

Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	1.7	1.7	1.6	1.5	1.5	1.5
Inflation	0.6	1.2	1.8	1.8	1.8	1.9
Primary Balance	0.4	1.1	1.7	1.9	1.9	1.8
Effective interest rate	4.5	4.3	4.2	4.3	4.2	4.1
Constant Primary Balance Scenario						
Real GDP growth	1.7	1.7	1.6	1.5	1.5	1.5
Inflation	0.6	1.2	1.8	1.8	1.8	1.9
Primary Balance	0.4	0.4	0.4	0.4	0.4	0.4
Effective interest rate	4.5	4.3	4.2	4.2	4.2	4.1

Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	1.7	-0.1	-0.1	-0.1	-0.1	-0.1
Inflation	0.6	1.2	1.8	1.8	1.8	1.9
Primary Balance	0.4	-2.0	-2.0	-2.0	-2.0	-2.0
Effective interest rate	4.5	4.3	4.3	4.4	4.4	4.4

Source: IMF staff.

Figure 3. The Bahamas: Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

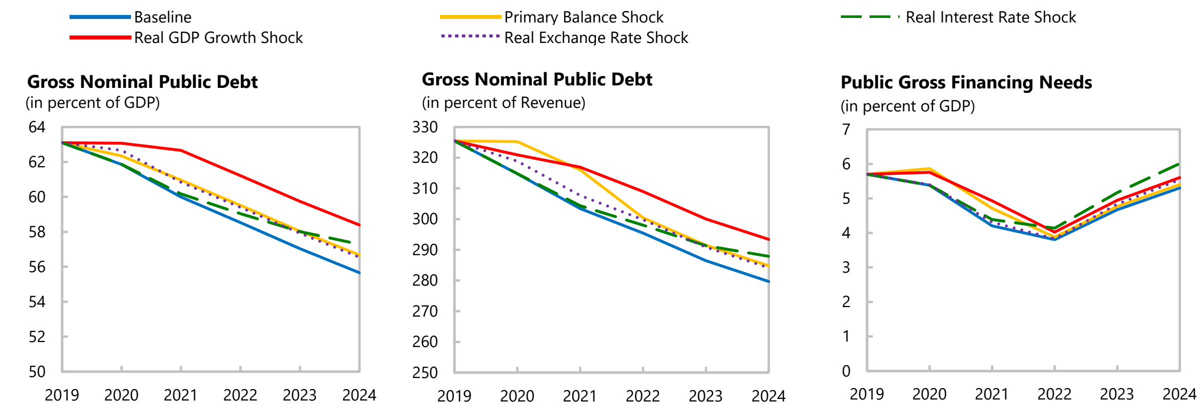
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Bahamas, The, as it meets neither the positive output gap criterion nor the private credit growth criterion.

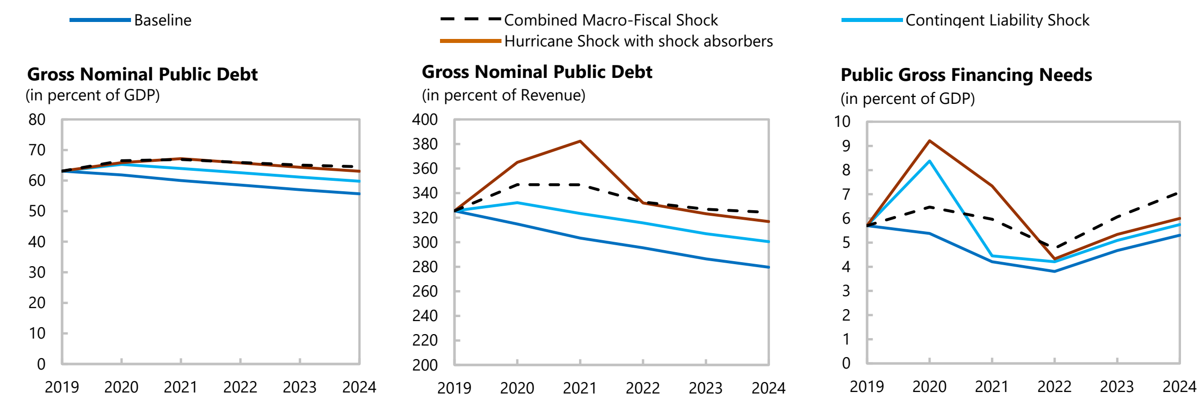
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. The Bahamas: Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2019	2020	2021	2022	2023	2024
Baseline						
Real GDP growth	1.7	1.7	1.6	1.5	1.5	1.5
Inflation	0.6	1.2	1.8	1.8	1.8	1.9
Primary balance	0.4	1.1	1.7	1.9	1.9	1.8
Effective interest rate	4.5	4.3	4.2	4.3	4.2	4.1
Primary Balance Shock						
Real GDP growth	1.7	1.7	1.6	1.5	1.5	1.5
Inflation	0.6	1.2	1.8	1.8	1.8	1.9
Primary balance	0.4	0.7	1.2	1.9	1.9	1.8
Effective interest rate	4.5	4.3	4.2	4.3	4.2	4.2
Real Interest Rate Shock						
Real GDP growth	1.7	1.7	1.6	1.5	1.5	1.5
Inflation	0.6	1.2	1.8	1.8	1.8	1.9
Primary balance	0.4	1.1	1.7	1.9	1.9	1.8
Effective interest rate	4.5	4.3	4.5	4.8	5.0	5.3
Combined Shock						
Real GDP growth	1.7	0.3	0.1	1.5	1.5	1.5
Inflation	0.6	1.2	1.8	1.8	1.8	1.9
Primary balance	0.4	0.4	0.7	1.9	1.9	1.8
Effective interest rate	4.5	4.5	4.6	4.9	5.1	5.4

	2019	2020	2021	2022	2023	2024
Real GDP Growth Shock						
Real GDP growth	1.7	0.3	0.1	1.5	1.5	1.5
Inflation	0.6	1.2	1.8	1.8	1.8	1.9
Primary balance	0.4	0.9	1.2	1.9	1.9	1.8
Effective interest rate	4.5	4.3	4.2	4.3	4.2	4.1
Real Exchange Rate Shock						
Real GDP growth	1.7	1.7	1.6	1.5	1.5	1.5
Inflation	0.6	4.6	1.8	1.8	1.8	1.9
Primary balance	0.4	1.1	1.7	1.9	1.9	1.8
Effective interest rate	4.5	4.5	4.3	4.3	4.2	4.1
Contingent Liability Shock						
Real GDP growth	1.7	1.0	0.9	1.5	1.5	1.5
Inflation	0.6	1.2	1.8	1.8	1.8	1.9
Primary balance	0.4	-1.7	1.7	1.9	1.9	1.8
Effective interest rate	4.5	4.4	4.3	4.3	4.3	4.2
Hurricane Shock with shock absorbers						
Real GDP growth	1.7	1.5	1.2	1.5	1.5	1.5
Inflation	0.6	1.2	1.8	1.8	1.8	1.9
Primary balance	0.4	-2.7	-1.3	1.9	1.9	1.8
Effective interest rate	4.5	4.3	4.2	4.3	4.2	4.2

Source: IMF staff.

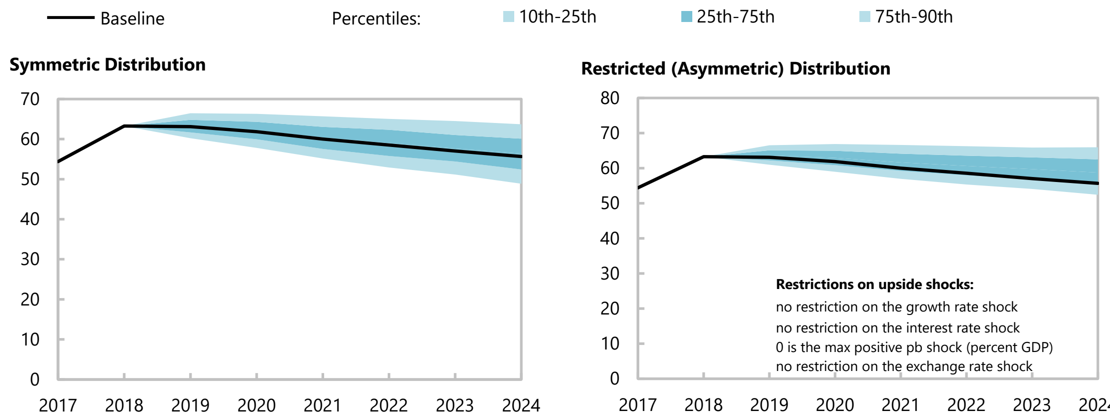
Figure 5. The Bahamas: Public DSA Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

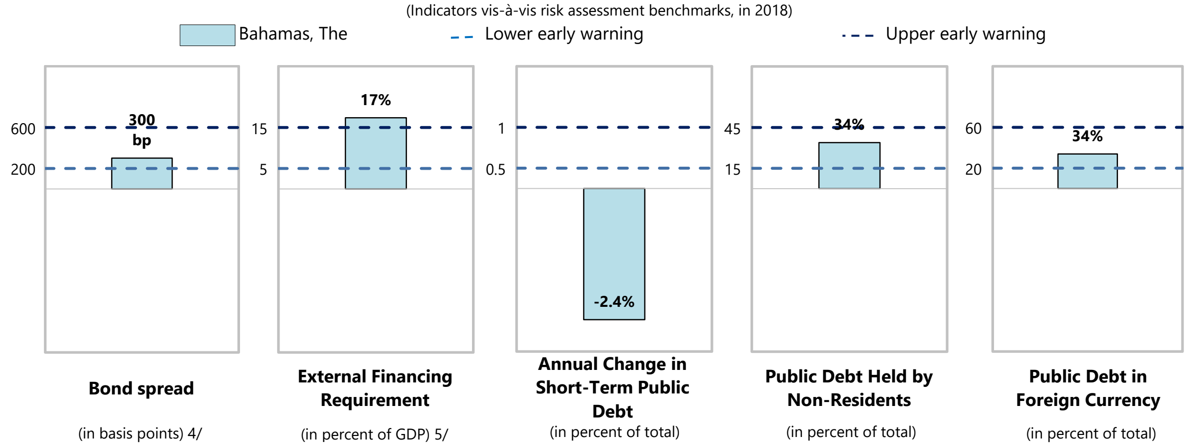
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2018)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

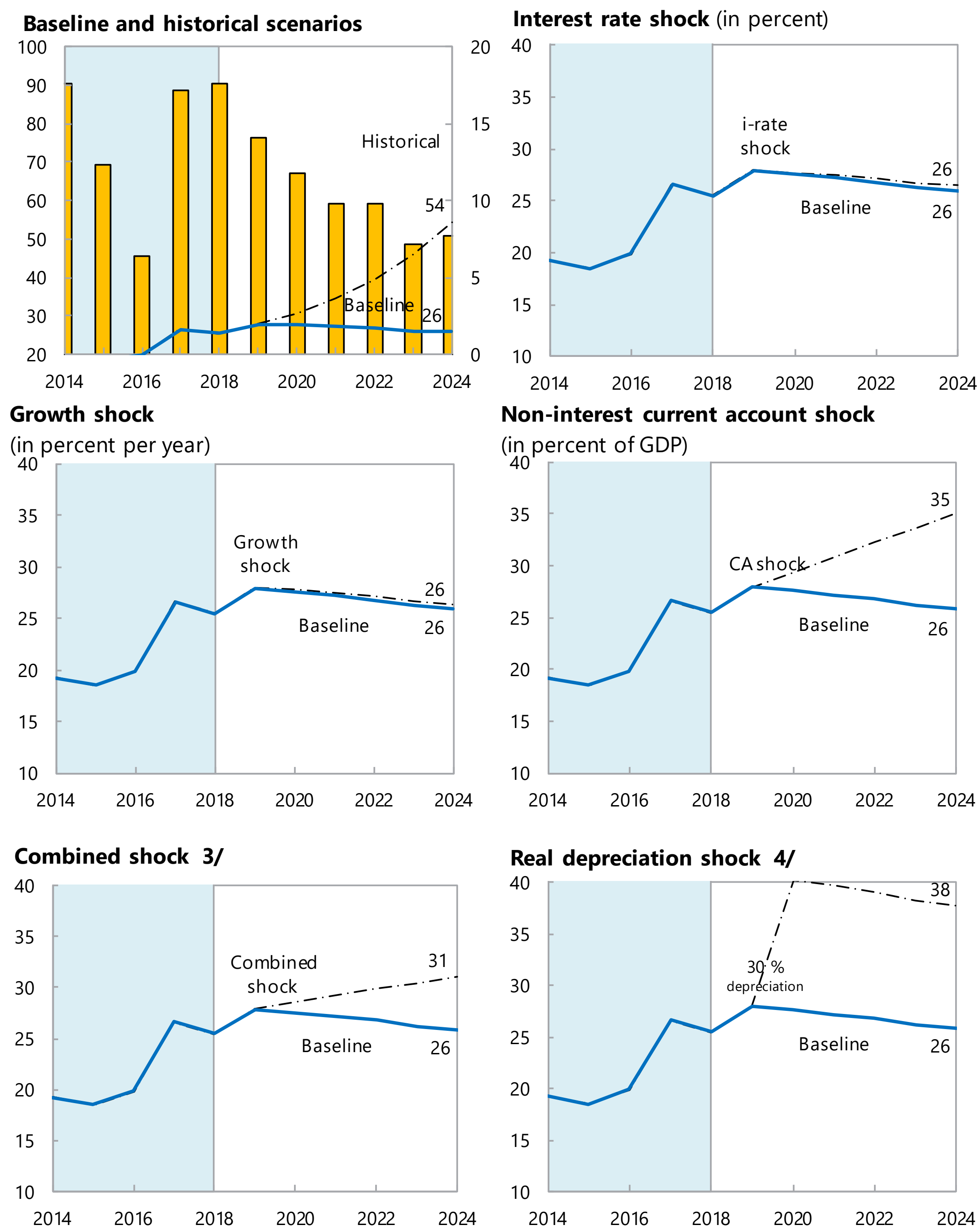
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 23-Nov-18 through 21-Feb-19.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 6. The Bahamas: External Debt Sustainability: Bound Tests. 2014-2024 1/ 2/

(External debt, percent of GDP, calendar year)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent.

Table 2. The Bahamas, External Debt Sustainability Framework, 2014–2024

(percent of GDP, unless otherwise indicated, calendar year)

	Actual							Projections						
	2014	2015	2016	2017	2018			2019	2020	2021	2022	2023	2024	Debt-stabilizing non-interest current account 6/
Baseline: External debt	19.2	18.5	19.9	26.6	25.5			**27.9**	**27.6**	**27.2**	**26.8**	**26.2**	**25.9**	**4.1**
Change in external debt	3.9	-0.7	1.4	6.7	-1.1			2.4	-0.3	-0.4	-0.4	-0.6	-0.3	
Identified external debt-creating flows (4+8+9)	19.4	11.5	9.1	16.5	19.9			16.2	14.2	13.0	11.6	10.1	8.9	
Current account deficit, excluding interest payments	16.5	11.1	5.0	11.9	15.4			10.8	8.9	7.7	6.5	5.1	4.3	
Deficit in balance of goods and services	-78.9	-63.8	-69.9	-72.5	-79.1			-80.9	-81.3	-81.6	-81.7	-82.0	-82.2	
Exports	32.8	27.8	32.5	31.5	34.4			36.4	37.4	38.1	38.7	39.3	39.9	
Imports	-46.1	-36.0	-37.4	-41.0	-44.7			-44.5	-43.9	-43.5	-43.1	-42.7	-42.3	
Net non-debt creating capital inflows (negative)	2.5	0.8	3.4	4.0	4.1			4.4	4.4	4.4	4.3	4.3	4.3	
Automatic debt dynamics 1/	0.4	-0.4	0.7	0.7	0.4			0.9	0.9	0.9	0.8	0.7	0.3	
Contribution from nominal interest rate	0.9	1.0	1.0	1.1	1.0			1.4	1.4	1.3	1.2	1.1	0.7	
Contribution from real GDP growth	-0.1	-0.1	-0.1	0.0	-0.4			-0.4	-0.5	-0.4	-0.4	-0.4	-0.4	
Contribution from price and exchange rate changes 2/	-0.4	-1.3	-0.2	-0.3	-0.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-15.4	-12.2	-7.7	-9.8	-21.0			-13.8	-14.6	-13.3	-12.0	-10.7	-9.2	
External debt-to-exports ratio (in percent)	58.7	66.7	61.1	84.5	74.1			76.8	73.8	71.5	69.3	66.7	64.9	
Gross external financing need (in billions of US dollars) 4/	1918.1	1445.3	760.1	2089.3	2185.1			1791.5	1556.0	1339.8	1376.8	1034.9	1158.1	
in percent of GDP	17.6	12.3	6.4	17.2	17.6	10-Year	10-Year	14.1	11.8	9.8	9.8	7.1	7.7	
Scenario with key variables at their historical averages 5/								**27.9**	**30.6**	**34.4**	**39.6**	**46.1**	**54.4**	**6.8**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	0.7	0.6	0.4	0.1	1.6	0.2	2.2	1.8	1.7	1.5	1.5	1.5	1.5	
GDP deflator in US dollars (change in percent)	2.6	7.0	1.1	1.7	0.7	1.6	2.4	0.6	1.8	1.8	1.8	1.8	1.9	
Nominal external interest rate (in percent)	6.3	5.4	5.3	5.4	3.9	5.8	0.9	5.6	5.2	4.9	4.6	4.3	2.7	
Growth of exports (US dollar terms, in percent)	-1.4	-8.7	18.9	-1.4	11.8	1.6	11.1	8.2	6.4	5.3	5.0	5.0	5.0	
Growth of imports (US dollar terms, in percent)	5.0	-16.0	5.6	11.5	11.5	2.6	12.0	2.0	2.2	2.3	2.4	2.5	2.5	
Current account balance, excluding interest payments	-16.5	-11.1	-5.0	-11.9	-15.4	-11.3	3.6	-10.8	-8.9	-7.7	-6.5	-5.1	-4.3	
Net non-debt creating capital inflows	-2.5	-0.8	-3.4	-4.0	-4.1	-4.6	2.3	-4.4	-4.4	-4.4	-4.3	-4.3	-4.3	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Annex IV. Past Policy Advice

Recommendations	Current Status and Progress
Fiscal Policy	
Undertake additional fiscal adjustment to bring the budget deficit to 0.5 percent of GDP over the medium term.	An estimated fiscal adjustment of 3 percent of GDP over 2017–18 paves the way for meeting the medium-term deficit target.
Focus on reducing recurrent expenditures rather than compressing much-needed capital spending.	The expenditure adjustment has impacted capital spending.
Establish a natural disaster fund (amounting to 2-4 percent of GDP) as part of a broader risk management strategy.	Initial capital for a natural disaster fund has been identified and draft legislation prepared.
Adopt fiscal rules designed to limit the budget deficit and bring down public debt to a sustainable level over the medium term.	The FRL was enacted in October 2018 and it includes numeric targets and supporting institutions, including a fiscal council.
Improve tax revenue mobilization by eliminating tax concessions and exemptions and developing a progressive tax system.	The VAT rate has been increased, but significant exemptions remain in place and there is no progress with income taxation.
Structural Policy	
Advance energy sector reforms to improve the reliability of the electricity grid and reduce costs.	The energy company completed an audit of the electricity grid, and it is upgrading its transmission and distribution networks.
Streamline administrative processes to improve the business climate and establish a credit bureau to enhance financial inclusion.	An operator for the credit bureau has been selected.
Expand vocational and apprenticeship programs to help reduce skills mismatches and youth unemployment.	More progress is needed in addressing skills mismatches and reducing youth unemployment.
Monetary and Financial Policy	
Implement provisions to improve central bank governance by clarifying its objectives and restricting lending to the government.	There has been a reduction in debt held by the CBOB; however, the draft new legal framework has not been approved.
Develop real estate price indices to facilitate the determination of fair value and the resolution of NPLs.	There has been no progress on a comprehensive real estate index.
Data	
Initiate production of quarterly GDP statistics; publishing and adhering to a data release calendar	Experimental quarterly GDP estimates have been compiled
Improve labor market data, by conducting unemployment surveys more frequently	There has been no progress.
Develop estimate of the International Investment Position	There has been no progress.

Annex V. 2019 FSAP Key Recommendations

Recommendations	Time *
Banking Supervision	
Strengthen assessments of credit underwriting and enhance credit risk management and ICAAP reviews. Update guidelines on impaired assets and other asset classifications.	I
Ensure strong governance arrangements for state-controlled financial institutions.	ST
Strengthen effectiveness assessments of bank boards of directors, senior management, and internal audits.	ST
Increase staffing to support critical functions, including analytics and on-site examinations.	ST
Financial Crisis Management and Safety Nets	
Enact bank resolution legislation, including guidance for public AMCs.	I
Create a Crisis Management Committee to improve coordination and operationalize reforms.	I
Increase DIC funding to reach 2 percent of insurable deposits. Establish a pre-arranged emergency funding facility.	ST
Issue Resolve financial statements and asset sales information, and commission a third-party comprehensive review of its operations.	I/ST
Financial Stability Analysis and Stress Testing	
Operationalize the proposed Consumer Credit Bureau.	I
Improve data collection and analytical capacity for assessing solvency and liquidity risks; strengthen focus on key systemic and macroeconomic risks.	ST
Develop a real estate price index.	ST
Systemic Risk Oversight and Macroprudential Policy	
Introduce a macroprudential capital buffer above a core common equity requirement.	ST
Collect loan-level data for potential implementation of LTV/DTI mortgage lending standards.	ST
Introduce CBOB recommendations regarding lending standards in NBFIs.	ST
Strengthen the role of the Group of Financial Services Regulators in systemic risk surveillance and oversight.	I
Anti-Money Laundering / Countering the Financing of Terrorism (AML/CFT)	
Continue to strengthen AML/CFT risk-based supervision of FIs and DNFBPs by enhancing risk analysis, dedicating resources, and using enforcement actions.	I
Assess potential ML/TF risks related to Fintech initiatives.	I
Prevent pressure on correspondent banking relationships, including by ensuring availability of accurate beneficial ownership information.	ST
Developmental Recommendations: Financial Inclusion – Payment Systems and SMEs	
Open the ACH to regulated and supervised non-bank financial institutions and modernize the electronic payment infrastructure. Differentiate debit and credit merchant discount rates.	ST
Promote digitizing government payments and allow Treasury participation in the ACH.	ST
Improve operations and coordination of public empowerment funds targeting SMEs.	I
* C = continuous; I (immediate) = within one year; ST (short term) = 1–3 years; MT (medium term) = 3+ years	

Annex VI. Recent Developments in the Offshore Sector

The Bahamas is home to a large international offshore center, which represents a significant share of output, employment, and provides some fiscal revenue. The government continues to strengthen the AML/CFT framework and is implementing a new legal and fiscal framework to comply with international transparency standards.

1. **The international—or offshore—sector comprises the financial and the non-financial (or business) sectors and serves primarily non-residents.** Assets under management in the financial sector have fallen from US$427 billion in 2013 to US$256 billion in June 2018, a still-large 21 times GDP (Table). The Bahamas is the fourth largest offshore center as identified by the Bank of International Settlements (BIS), even if the country responds to only 2.5 percent of the total assets held by the 19 BIS-identified offshore centers.

Structure of the Financial Sector

	Number of institutions		Asset (percent of GDP)	
	2016	**2018**	**2016**	**2018**
International Financial Sector	1,107	1,011	2,021.2	1,976.9
Banks and Trusts	227	208	1,427.1	1,301.3
External Insurers	21	20	8.8	8.1
Investment Funds	859	783	585.3	667.5

Source: Central Bank of the Bahamas, 2019 FSSA.

2. **Offshore financial business is conducted in foreign currency and accounts are separated from the domestic financial sector.** Until the recent changes (see below), offshore financial institutions could conduct foreign-currency business only with non-residents (except when such transactions were approved by the CBOB). This has effectively kept offshore financial transactions separate from the domestic financial sector, preventing non-resident funds or deposits from penetrating the domestic financial sector. While recent changes will allow financial institutions to offer services to both domestic and international clients, transactions will remain subject to strict exchange controls. The offshore sector does use domestic banks to facilitate payments in local currency to local employees.

3. **The Bahamas has attracted financial and related services from across the world as a competitive tax jurisdiction.** International business companies (IBCs) registered in The Bahamas pay business license fees and stamp duties on property owned in The Bahamas, but, just like Bahamian residents, are not subject to income, capital gains, gift, estate, inheritance or succession taxes. IBCs are also exempt from exchange controls unless they engage in business activities with residents. IBCs are regulated by the International Business Company Act and the specific Acts in an IBC's line of business. Within these parameters, IBCs can serve to optimize tax liabilities of non-resident entities by offering an establishment in a tax neutral jurisdiction.

Offshore Business Models

4. **International banks and non-financial IBCs.** The offshore financial sector offers private banking or trust services and conducts treasury operations on behalf of affiliated institutions. Banks hold substantial off-balance sheet fiduciary assets, and a small amount of liquid assets on balance sheet. Wealth preservation and legacy planning has gained importance amidst greater

geographical dispersion of clients. More recently, the offshore sector has also attracted some fintech operations. The Bahamian regulators have drafted regulation of cryptocurrencies. A stablecoin company announced in 2018 that its issuance was backed by assets held at a Bahamian offshore bank. The non-financial offshore sector includes nearly 95 percent of the registered (active) IBCs. Most operate as (passive) holding companies for property and other investments on behalf of non-residents.

Companies Registered in The Bahamas

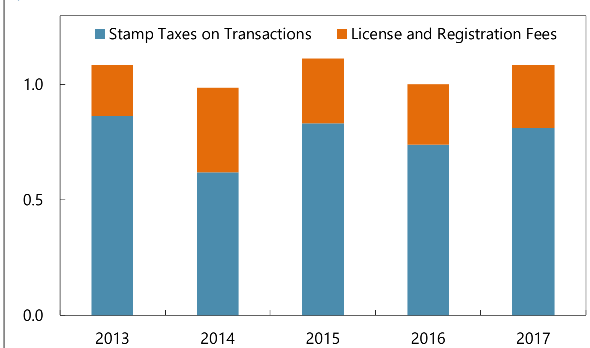
	2015 2/	2018
Active IBCs	34,977	26,729
Inactive IBCs	138,930	156,566
Local companies	38,705	42,132
Other 1/	1,917	2,080
Memo item		
Offshore financial companies 3/	1,107	1,011

Sources: Mutual Evaluation Report, Registrar's Office, 2019 FSSA.
1/ Non-profits, investment condominiums, segregated accounts companies, and others.
2/ As reported in the MER 2017 which was conducted in 2015.
3/ Value for 2016 and June 2018.

Macroeconomic significance

5. **Even if assets under management have fallen, the offshore financial sector remains important to the Bahamian economy and generates some direct government revenue.** Available studies focus on the contribution of the offshore *financial* sector to GDP, and its contribution is estimated to be around 3 percent.[1] Employment in the offshore *financial* sector has remained stable over time, at around 1,000 professionals (about ¼ of the total financial sector employment, which has fallen from 2 ½ to 2 percent of total employment). Available data on the importance of the offshore non-financial sector is limited, but it employs a significant number of business professionals, such as lawyers and accountants. Direct fiscal revenues from the financial sector averaged 1.1 percent of GDP (2013-2017), with nearly ¾ of the amount originating from stamp taxes and transaction taxes. Direct revenue from IBC registration fees has averaged 0.14 percent of GDP.

Direct Fiscal Revenue from Financial Sector
(percent of GDP)



Sources: CBOB.

Global Regulatory Initiatives

Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)

6. **The Bahamas has been listed by the Financial Action Task Force (FATF) as a country that has strategic AML/CFT deficiencies with an Action Plan.**[2] Owing to the shortcomings

[1] See IMF Country Report No. 17/315 Chapter 1.

[2] The Bahamas was assessed by the Caribbean Financial Actions Task Force (CFATF), a FATF-style regional body of which The Bahamas is a member, during an on-site visit held between November and December 2015. The Mutual Evaluation Report (MER) was from that visit adopted in in May 2017 and published in July 2017. The October 2018 FATF public statement is available at: http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/fatf-compliance-october-2018.html

identified in the mutual evaluation report, the Caribbean Financial Action Task Force (CFATF) placed The Bahamas under its enhanced follow-up process, and authorities were requested —and are submitting—periodic progress reports on their efforts to address the identified issues. In October 2018, the FATF identified The Bahamas as a country with strategic deficiencies, while acknowledging the political commitment to address remaining deficiencies identified through the Action Plan.

7. The Bahamas has made progress in addressing issues identified in its 2017 Mutual Evaluation Report (MER). The Bahamas' first enhanced follow up report was considered during the November 2018 CFATF Plenary. The report analyses progress in addressing certain technical compliance deficiencies which were identified in the MER, with re-ratings given where sufficient progress had been made.[3] In February 2019 the FATF noted the steps taken towards improving the AML/CFT regime, including by enacting the Beneficial Ownership Law and issuing Codes of Practice for lawyers, accountants, and the real estate sector.[4]

Tax Matters

8. The Bahamas is working with the OECD and the EU to address concerns on tax matters. The Bahamas signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters in 2017, which enables international tax cooperation, primarily the exchange of information on tax matters and assistance in tax collections. The Bahamas also joined the OECD's inclusive framework on Base Erosion and Profits Shifting (BEPS). In April 2018, the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes published 2018 Peer Review of The Bahamas, finding the country Largely Compliant with international standards. The EU found that The Bahamas facilitated offshore tax structures which attracted profits without the presence of real economic activity, and in 2018 listed the Bahamas as co-operative tax jurisdiction, subject to the successful delivery of their commitments.[5] The key demands include an increase in requirements of economic presence and the removal of preferential treatment for non-resident companies.

9. International organizations have also scrutinized the Economic Permanent Residency program. In October 2018, the OECD identified The Bahamas as one of several jurisdictions with a residence or citizenship by investment scheme that it considered High Risk for possibly being misused to circumvent the Common Reporting Standard (CRS). The Economic Permanent Residency gives the right to permanently reside in The Bahamas and enter/exit the country freely.
The program, which can be revoked, does not confer citizenship (or voting rights), or the right to be gainfully employed in The Bahamas. The residency does not provide tax residency, and compliance with tax legislation in the country of origin remains the individual's responsibility.

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[3] http://www.fatf-gafi.org/fr/publications/evaluationsmutuelles/documents/fur-bahamas-2018.html?hf=10&b=0&s=desc(fatf_releasedate)

[4] http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/fatf-compliance-february-2019.html

[5] https://www.consilium.europa.eu/en/policies/eu-list-of-non-cooperative-jurisdictions/

The Bahamian Response

10. **The government responded by strengthening the AML/CFT framework and moving to comply with tax transparency standards, while defending the offshore sector as a competitive, well-regulated jurisdiction.** Changes in the regulatory environment mean that The Bahamas could in the future become less attractive for certain offshore financial activities. At the same time, complying with international standards is important to secure a sustainable business model while avoiding reputational risks or financial stress, for example in the form of CBR pressures.

11. **The authorities have committed to undertake several measures under the FATF Action Plan.** As part of the plan, authorities committed to put in place measures for risk-based supervision of non-bank financial institutions and designated non-financial businesses and professions (DNFBPs), ensure that beneficial ownership information of entities incorporated and formed in The Bahamas is declared and maintained in a secure database, increase the quality of the FIU's products to assist law enforcement with ML/TF investigations, provide training, guidance and resources to the judiciary, prosecutorial and law enforcement sectors to effectively pursue ML investigations, develop and implement a national policy on AML/CFT confiscation measures, address gaps in the TF – TFS framework, ensure that all aspect of the UN Security Council Resolutions for proliferation financing are implemented, and develop and implement an electronic case management system for extradition and mutual legal assistance, among others. Efforts to address these measures are ongoing.

12. **A new legal framework for the international sector is being implemented.** Parliament recently enacted legislation to improve transparency in the international business sector (Table 1), and additional regulations for the implementation of the new legal framework are being elaborated.

Table 1. The Bahamas: Major Legislative Changes Impacting the International Sector

Legislation	Summary
Commercial Entities (Substance Requirements) Act (December 2018)	Increases the requirements for economic presence for IBCs
Register of Beneficial Ownership Act (December 2018)	Creates a competent authority that will be responsible for setting up a secure search system to enable registered agents to maintain a database on the beneficial ownership of a legal entity for which it has responsibility
Removal of Preferential Exemptions Act (December 2018)	Provides the legal basis for equalizing the playing field between resident and non-resident companies;
Business License Act (2019)	Determines the new business license fee structure with a view to removing preferential treatment of non-resident companies

Source: The Bahamian authorities.

13. **A new fiscal framework for the international sector is being developed.** In early 2019 the government announced a new framework for the international financial and business sector. The changes are expected to be overall revenue neutral. Under this new framework, the details of which are being developed, all financial institutions will be allowed to offer services to

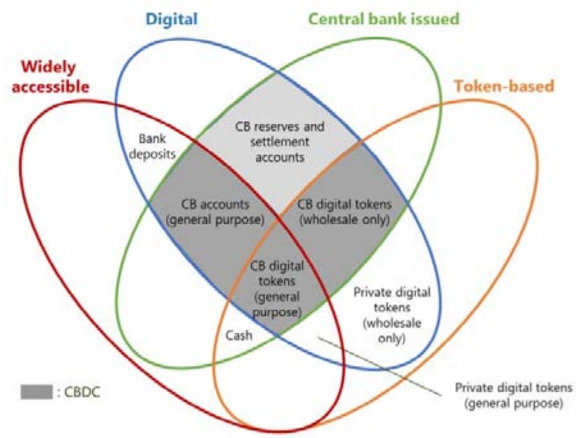
both resident and non-resident clients, and their fiscal treatment will be the same regardless of their client base, subject to Exchange Control restrictions. Business License Fees as such will be replaced by a unified fee-based system consisting of (i) a flat registration fee of between B$ 2,250 and B$ 250,000, determined by a firms operational complexity, (ii) systemically important financial institutions will be further subject to an additional fee relating to their B$ liabilities, (iii) and any bank who wishes to access the domestic payment system will be charged usage fees. All non-financial companies, domestic and international, will be required to register under the Business License Act and pay a value-based, business license fee. This fee will be calculated as a percentage of the value of taxable supplies at a rate of between 0 and 2.5 percent, as determined by the Ministry of Finance.

Annex VII. Central Bank Digital Currency: Benefits and Consequences

The Central Bank of The Bahamas (CBOB) plans to issue a digitized version of the national currency to foster financial inclusion in islands without access to banking services, which it sees as important to promote inclusive growth and reduce poverty. Central bank digital currency (CBDC) is the digital form of fiat money issued by the central bank. Financial innovation is an important ingredient for inclusive growth, and the widespread use of a CBDC could also discourage tax evasion. The risks of issuing a CBDC, however, can be significant and a more efficient and inclusive financial system can be achieved through innovations in the existing payment infrastructure.

1. **Policymakers across the world are looking to harness opportunities offered by new financial technologies, or fintech, as part of a broader agenda for inclusive growth.**[1] According to a recent survey by the Bank for International Settlements (BIS), 70 percent of central banks are currently involved—or will soon be involved—in a form of digital currency, with one-third of central banks now seeing the adoption of CBDCs as likely.[2] The BIS proposes two different types of CBDC: (1) wholesale CBDC limited to banks and other financial institutions; and (2) general purpose (or retail) CBDC available to the general public. Operationally, there are two main models for CBDC: (1) a digital token—like traditional coins and notes issued by a central bank—operates peer-to-peer with or without a distributed-ledger blockchain system that does not involve the interbank clearing system; and (2) an account that individuals and firms can directly hold at the central bank—like the reserve accounts commercial banks presently hold with the central bank for interbank payments and regulatory purposes.[3]

Digital Currency Options



Source: BIS, based on Based on Bech and Garratt (2017).

2. **The CBOB, like many other central banks, is considering the introduction of a digital form of fiat money, with the primary objective of enhancing financial inclusion.** The CBOB will conduct a blockchain-based CBDC pilot in a remote island of the archipelago, with the objectives of enhancing financial inclusion and reducing transaction costs in areas that are not served, or

[1] IMF, 2018, "The Bali Fintech Agenda" (Washington, DC: International Monetary Fund).

[2] BIS, 2018, "Central Bank Digital Currencies" (Basel: Bank for International Settlements).

[3] Account- and token-based CBDCs are distinguished by identification requirements. For a satisfactory transaction in an account-based system, the payer needs to be identified as the holder of the account from which the payment will be made. In contrast, in a token-based system, the genuineness of CBDC units being transferred needs to be verified.

underserved, by commercial banks. The CBOB has selected an external provider to design and implement the digital fiat currency named "Sand Dollar" in The Bahamas (Box 3). The pilot program—and especially a full-scale adoption of a general purpose CBDC—will require additional human capital and technological capabilities to ensure that it is compatible with the existing financial structure and abides by all legal and regulatory requirements.

3. CBDCs can reduce the costs of issuing and distributing physical money and increase transparency throughout the financial system. The effectiveness of CBDC as a form of money will depend on how well it serves as a medium of exchange and a secure store of value, denominated in an existing unit of account for economic and financial transactions.[4] CBDCs would reduce the costs of producing and distributing physical fiat money and enhance financial inclusion among low-income households that tend to rely heavily on cash and small businesses that incur high transaction costs. Accordingly, a well-designed CBDC could have the following features:

- ***Medium of exchange.*** With an accounts-based CBDC, the central bank becomes the central hub for retail transactions or handles the CBDC accounts through public-private partnerships with commercial banks.

- ***Store of value.*** A CBDC account with the central bank could provide a rate of return in line with risk-free assets such as short-term government securities and thereby serve as a tool for the effective conduct of monetary policy.

- ***Unit of account.*** A stable unit of account is key to facilitate economic and financial activity by households and firms. A digital form of currency would function just like physical fiat money and enable the central bank to maintain the appropriate monetary policy stance for price stability.

4. Digital technology can help spur financial intermediation and inclusion, but not without enabling institutions and a strong regulatory environment. The main advantages of CBDCs could come from greater efficiency in domestic and cross-border payment systems and low risk in deposit accounts. These in turn help expand access to financial services, which is one of the key pillars of dynamic and inclusive economic growth that would improve household welfare and promote business development. The impact of CBDCs on the existing financial system is a key consideration for three macro-critical reasons:

- ***The introduction of an interest-carrying CBDC could undermine financial stability by making commercial bank deposits more volatile.*** When a CBDC becomes a substitute for commercial bank deposits, banks could experience an increase in funding costs, leading to higher lending rates. At the same time, higher CBDC demand may force the central bank to skew the composition of its balance sheet toward more risky assets as it needs to generate higher

[4] Mancini, T., and others, 2018, "Casting Light on Central Bank Digital Currency," IMF Staff Discussion Note SDN/18/08 (Washington, DC: International Monetary Fund).

returns. Furthermore, CBDCs appear to be subject to fraud and cybersecurity risks that could have significant reverberations to financial stability.[5]

- ***The recorded nature of the CBDC can help improve financial integrity, but it places additional burdens on the central bank.*** Since greater reliance on physical cash in economic and financial transactions increases the risks of money laundering, the introduction of a CBDC can help address some of the AML/CFT vulnerabilities. The burden of compliance, however, would fall increasingly on the central bank (e.g., through KYC (know-your-customer) requirements), and ensuring cyber resilience and safeguarding personal data throughout the payments system and financial sector is critical.

- ***The digitalization of fiat money can alter the conventional channels of monetary transmission.*** An interest-bearing CBDC has the potential to alter traditional structures of the financial system, but digitalization alone would not erode the central bank's control over the macro-financial environment. An accounts-based CBDC, for example, would give a greater role to the central bank in the financial system and may enhance the efficacy of monetary policy by providing a more systematic and transparent information on money demand in real time.

5. By exploring all forms of digital innovation, The Bahamas can progress towards financial inclusion while avoiding risks associated with the CBDC. Financial innovation could help enhance financial inclusion throughout The Bahamas and the widespread use of an account-based CBDC could discourage tax evasion. However, issuing a CBDC is no panacea. First, insufficient infrastructure for reliable electricity and internet connectivity in smaller islands and low-income areas of bigger islands can worsen socioeconomic inequalities because of monetary digitalization. Second, financial stability risks associated with the CBDC are significant, and the current rules and regulations may need to evolve to appropriately mitigate these risks. A more efficient and inclusive financial system could also be achieved through digital innovations in existing payments and financial infrastructures:

- ***Expanding the telecommunication infrastructure.*** Greater geographic penetration of financial services—the key objective for the CBOB—can be obtained by improving internet and mobile phone connectivity and implementing low-cost automated teller machines (ATMs). While the share of population using the Internet in The Bahamas is much higher than that in the rest of Latin America and the Caribbean, internet access and mobile phone subscriptions are not distributed equally throughout the archipelago scattered over an area of more than 259,000 square kilometers. Ensuring remote islands have adequate telecommunication infrastructure and weak internet connectivity is key.

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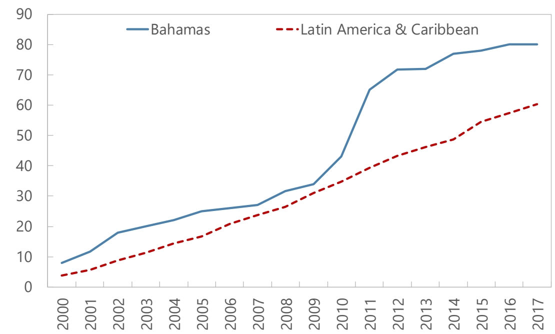
[5] Nelson, B., 2018, "Financial stability and monetary policy issues associated with digital currencies," *Journal of Economics and Business*, Vol. 100, pp. 76-78.

Internet usage is very common

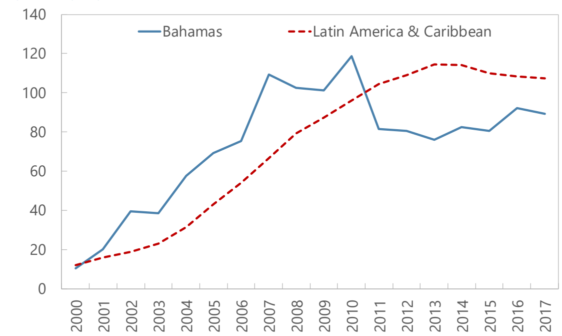
Individuals using Internet
(percent of popualtion)



Source: World Development Indicators

And cell phones are widely used

Mobile Phone Subscriptions
(per 100 people)

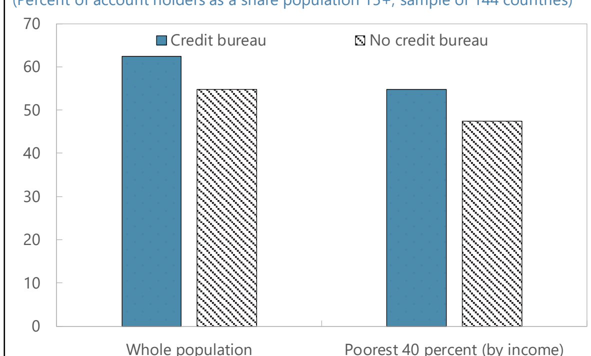


Source: World Development Indicators

- ***Utilizing mobile phone applications.*** The widespread availability of mobile phones provides a reliable, well-tested platform to deliver banking and payment services across the archipelago. Since the geographical reach of telecommunication operators is significantly greater than that of any commercial bank, mobile money transfer and payment applications could offer a low-cost solution to provide access to financial services. In many countries, mobile phone companies offer m-Wallet (short for mobile wallet) services, which allow subscribers to load cash, pay bills, and transfer money to other m-Wallet accounts or bank accounts. Smartphones offer users access to a wide spectrum of fintech applications, including peer-to-peer digital wallets.

- ***Improving the institutional infrastructure.*** From a broader point of view of financial inclusion, the establishment of a credit bureau and an asset registrar would be more effective in reducing the cost of financial services and closing demographic, geographic and socioeconomic gaps in financial intermediation. Furthermore, transparent credit information has significant benefits for financial stability and integrity by providing information on clients' financial behavior and outstanding assets and liabilities.

Financial Inclusion and Credit Bureaus
(Percent of account holders as a share population 15+, sample of 144 countries)



Sources: World Bank and IMF staff calculations.

INTERNATIONAL MONETARY FUND

THE BAHAMAS

May 16, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By
Western Hemisphere Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of March 31, 2019)

Membership Status: Joined August 21, 1973; Article VIII

General Resources Account:

	SDR Millions	Percent of Quota
Quota	182.40	100.00
Fund holdings of currency	163.12	89.43
Reserve position in the Fund	19.29	10.57

SDR Department:

	SDR Millions	Percent of Quota
Net cumulative allocation	124.41	100.00
Holdings	88.39	71.04

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Payments to the Fund:
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2019	**2020**	**2021**	**2022**	**2023**
Principal	. . .	. . .	. . .	. . .	. . .
Charges/Interest	0.31	0.42	0.42	0.42	0.42
Total	**0.31**	**0.42**	**0.42**	**0.42**	**0.42**

Exchange Rate Arrangement

The Bahamas has a conventional peg arrangement, with the Bahamian dollar pegged to the U.S. dollar at B$1 per US$1. The Bahamas has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions. There has been a continuous relaxation of exchange controls. In February 2018 premium charged on purchases and sales in the Investment Currency Market rate was reduced to 5 and 2½ percent. Given that this tax relates solely to capital transactions, it is covered by the framework established by the Executive Board in *The Chairman's Summing Up at the Conclusion of the Discussion on Multiple Currency Practices Applicable Solely to Capital Transactions, BUFF/85/34.*

Assessment of Data Adequacy for Surveillance:

Data provision is broadly adequate for surveillance. All critical macroeconomic data, including comprehensive central government finance statistics, are regularly published in the Central Bank of the Bahamas' "*Monthly Economic and Financial Developments*" and "*Quarterly Statistical Digest*". Subscription to the enhanced General Data Dissemination System (e-GDDS) in December 2018 has improved timelines and accessibility. At the same time, the authorities have yet to compile data on the international investment position (IIP) statistics and general government accounts data. Balance of payments statistics should be moved to the *Balance of Payments Manual 6*. Staff continues to support the authorities' efforts towards addressing data gaps, including continuing technical assistance to compile and publish quarterly national accounts and IIP statistics.

Last Article IV Consultation

The Bahamas is on a 12-month cycle. The last Article IV consultation was concluded by the Executive Board on May 4, 2018 (IMF Country Report No. 18/118).

Technical Assistance

Department	Dates	Purpose
LEG	February 2012	Central Bank of The Bahamas Act
MCM	February/March 2012	Public Debt Management
STA	June 2012	Quarterly National Accounts
LEG	July 2012	Payment System Laws
STA	Jan 2013	Government Finance Statistics
MCM	February 2013	Financial Stability Reporting
FAD	April 2013	Tax Reforms for Increased Buoyancy
CARTAC	April 2013	Draft VAT Bill
MCM	May 2013	Basel II Implementation
CARTAC	May/September 2013	Central Revenue Agency
CARTAC	July 2013	Support for Customs and Excise Department's Preparation of VAT
FAD	January/February 2014	Revenue Administration
FAD	March 2014	Tax Administration Readiness to Successfully Launch and Administer VAT
FAD	March 2014	Goods and Services Tax
FAD	March 2014	VAT Revenue Projection
FAD	April 2014	Revenue Impact of Implementing VAT
MCM	March 2014	Financial Crisis Management Planning
MCM	April 2014	Debt Management
CARTAC	June 2014	Price Statistics

Technical Assistance (Concluded)		
CARTAC	August 2014	Balance of Payment and International Investment Position
FAD	September/October 2014	Revenue Administration
FAD	October 2014	Preparation to Launch a Value Added Tax
CARTAC	November 2014	Quarterly National Accounts
CARTAC	December 2014	Price Statistics
CARTAC	December 2014	Risk-Based Supervision of the Securities Market
LEG	March 2015	Strengthening the Legal Framework for Bank Resolution and Crisis Management
CARTAC	August/September 2015	Quarterly National Accounts
FAD	February/March 2016	Assessment of VAT Launch and Administration
CARTAC	August 2016	National Accounts Statistics
CARTAC	August 2016	Financial Health and Stability Indicators for the Pension Sector in the Bahamas
CARTAC	May/June 2017	External Sector Statistics
CARTAC	June 2017	Macro-Prudential and Systemic Risk Indicators for Financial Stability Assessment
CARTAC	August 2017	National Accounts Statistics
CARTAC	November/December 2017	Price Statistics
CARTAC	April 2018	Public Financial Management
STA	April 2018	Monetary and Financial Statistics
CARTAC	May 2018	Financial Stability Framework
CARTAC	June 2018	Corresponding Bank Relationship Monitoring Toolkit
CARTAC	August 2018	National Accounts Statistics
CARTAC	September 2018	Public Financial Management

Resident Representative: None

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

Country Strategy with The Bahamas 2018–2022

Currently the IDB has an approved loan portfolio of US$323 million for The Bahamas. The IDB Country Strategy with The Bahamas (2018–2022) aims to support the country in achieving a sustainable path of higher growth in a fiscally prudent manner. The Country Strategy priority areas include:

- Enhancing public sector effectiveness;
- Supporting resilient infrastructure for growth; and
- Fostering an enabling environment for private sector competitiveness.

Cross cutting considerations of data, gender, and climate resilience and disaster risk management will also be factored into all strategic partnership efforts. Operations in these areas aim to support The Bahamas' efforts to improve total factor productivity by encouraging innovation and efficiency, which will increase output levels and spur private-sector-led growth.

https://www.iadb.org/en/countries/bahamas/overview

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

(As of April 16, 2019)

Country Strategy with The Bahamas 2018–2022

The overriding aim of the CDB's current Strategy for The Bahamas is to support the country's advancement as a progressively stable and vibrant economy, as well as an increasingly safe society with enhanced opportunities for productive employment and improved living standards. An indicative program of assistance was proposed to help the country achieve faster, more inclusive and environmentally sustainable development, buttressed by macroeconomic stability and citizen security. The Country Strategy responds to these development priorities and is aligned with the Bank's strategic objectives of: supporting inclusive and sustainable growth and development; promoting good governance; and cross-cutting objectives of gender equality, regional cooperation and integration, and energy security. In this context, the proposed CS rests on the following pillars: (a) Environmental Protection and Infrastructure Enhancement; (b) Inclusive Social Development; and (c) Improved Governance and Productivity. The indicative program of assistance has been designed to achieve the following outcomes: (i) increasing access to quality climate resilient infrastructure; (ii) broadening EE and sustainable energy options; (iii) enhancing educational outcomes; (iv) improving governance; and (v) increasing productivity, competitiveness and economic diversification. Several projects, along with associated technical assistance, are being taken forward to address these priorities.

Other areas for future dialogue: The Bank will conduct a mid-term review of the existing strategy in 2020. This will inform the next strategy, due to commence in 2022. Discussions are likely to focus on consolidating the work of the existing strategy, with focus on further development needs in relation to infrastructure in the Family Islands.

https://www.caribank.org/countries-and-members/borrowing-members/bahamas

STATISTICAL ISSUES

(As of January 31, 2019)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance. However, some weaknesses remain in both coverage and timeliness, partly reflecting capacity constraints.
National Accounts: The Department of Statistics (DoS) is focusing on improving the GDP estimates by producing quarterly GDP estimates by expenditure consistent with 2008 SNA recommendations. Quarterly GDP estimates by economic activity are being compiled and are expected to be released in May 2019. With the support of CARTAC missions the supply and use tables were finalized and rebased GDP estimates were released by the DoS on September 29, 2017. The new national accounts system, rebased to 2012, has expanded coverage, including the production of offshore banking units and the branch operations of foreign airlines, along other improvements. With Statistics Canada's support, a National Accounts Advisory Committee has been established and MOUs are being implemented to improve administrative data classification, quality assurance and sharing.
Price Statistics: The DoS last updated the weight reference period and basket of items for CPI using the results of the 2013 Household Expenditure Survey (HES); these weights are over five years old now and require updating. The November 2017 mission recommended conducting a Household Expenditure Survey in 2018/19, which would support this activity. During the mission, errors in the CPI for May and June 2017 were corrected and series revised.
Government Finance Statistics: The Bahamas has been submitting data according with the *Government Finance Statistics Manual 2014,* and the data covers only operations of the central government. However, some very experimental consolidated General Government data exists. High discrepancies are common in the data, thus further improvements are needed: data coverage should be expanded to include all the public bodies classified outside the existing budgetary central government and consequently to compile the General Government. Monthly or quarterly data should be made available in a timely manner. The authorities are not reporting debt data to the World Bank's Public Sector Debt Statistics database.
Monetary and Financial Statistics: Following an April 2018 technical assistance mission, The Central Bank of The Bahamas (CBOB) migrated to the standardized report forms (SRFs) for the central bank (1SR) and other depository corporations (2SR); regularly reporting them to STA. The CBOB is in the process of compiling SRF 4SR with data of off-shore banks, which make more than half of the financial system. The Bahamas reports data on some basic series and indicators of the financial access survey (FAS), including the two indicators of the U.N. Sustainable Development Goals. **Financial Sector Surveillance:** The CBOB compiles for internal use 16 financial soundness indicators (FSIs), but publish them only in its annual *Financial Stability Report* and do not report them to STA.

External Sector Statistics (ESS): The Central Bank of The Bahamas (CBOB) does not compile international investment position (IIP) statistics. Also, the CBOB's balance of payments presentation has remained unchanged for many years, the compilation system has not captured new developments, such as growing portfolio investment outflows, and the framework does not conform to the latest international statistical guidelines. In June 2017, a CARTAC technical assistance mission identified a wide range of improvements that could be addressed in the short-term horizon in this area, including revisions to the IIP survey form, new surveys for the financial sector, and the use of several administrative sources of information for ESS compilation. However, limited progress has been made on implementing the mission recommendations.	
II. Data Standards and Quality	
The country participates in the Enhanced General Data Dissemination System (e-GDDS) and launched a National Summary Date Page in December 2018 with the assistance of STA.	Data *Reports on the Observance of Standards and Codes* (ROSC) are not available.

The Bahamas: Table of Common Indicators Required for Surveillance

(As of May 15, 2019)

	Date of Latest Observation (mm/yy)	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Fixed				
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	02/19	04/19	M	M	M
Reserve/Base Money	02/19	04/19	M	M	M
Broad Money	02/19	04/19	M	M	M
Central Bank Balance Sheet	02/19	04/19	M	M	M
Consolidated Balance Sheet of the Banking System	02/19	04/19	M	M	Q
Interest Rates[2]	3/19	4/19	M	M	M
Consumer Price Index	2/19	5/19	M	I	I
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	3/19	4/19	M	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/18	3/19	Q	Q	Q
External Current Account Balance	12/18	3/19	Q	Q	I
Exports and Imports of Goods and Services	12/18	3/19	Q	Q	Q
GDP/GNP	2018	5/19	A	A	A
Gross External Debt	12/18	3/19	Q	Q	Q
International Investment Position[6]	NA	NA	NA	NA	NA

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic banks, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).